AMERICAN BANKERS Association JOURNAL

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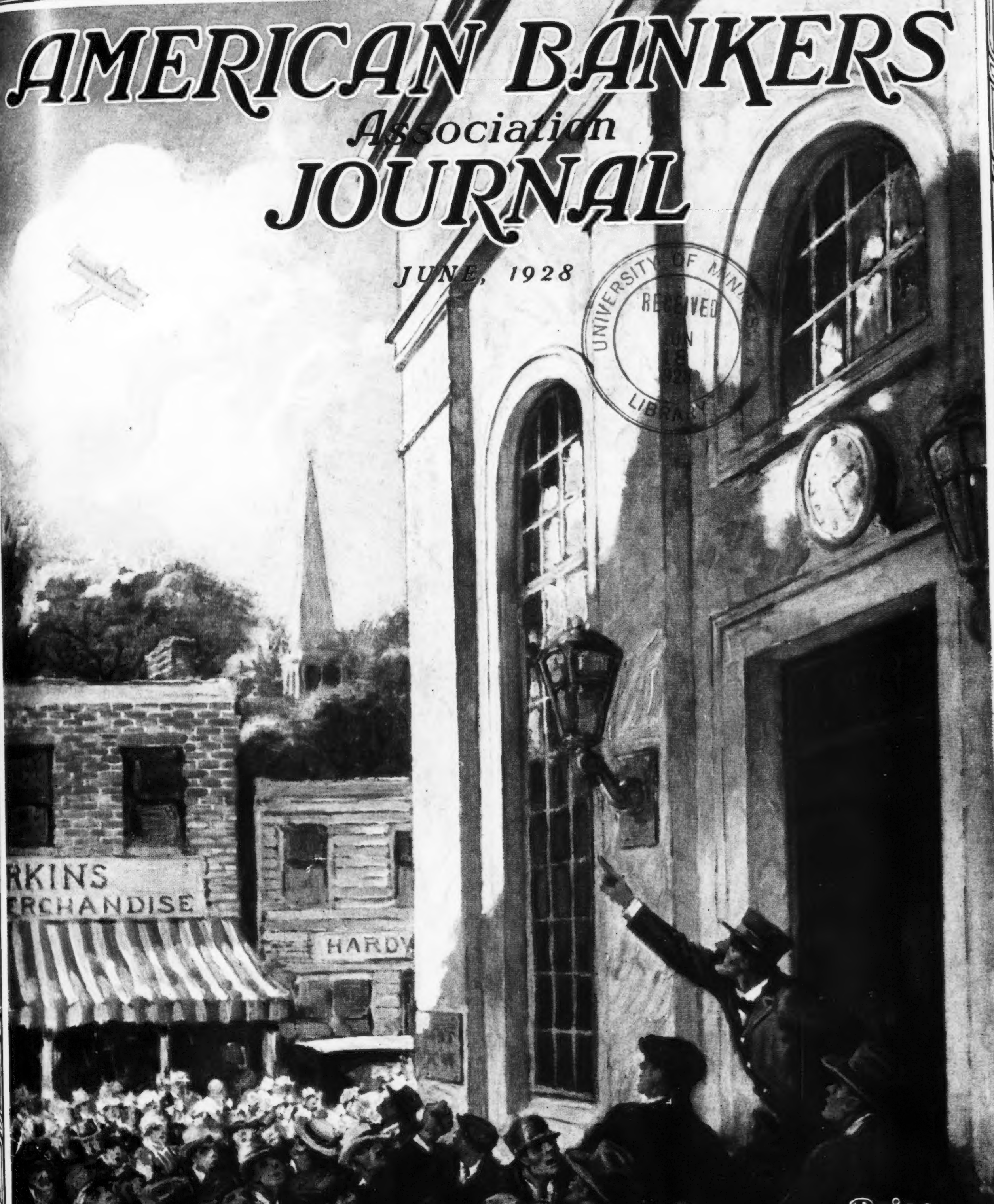

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AMERICAN BANKERS ASSOCIATION JOURNAL

False Gods in Savings Banking

By CHARLES A. MILLER
President, The Savings Bank of Utica, N. Y.

A Carryover from the Days When Philanthropic Gentlemen Conducted Banks in a Spirit of Charity and Called Depositors "the Provident Poor" and When a Presidency Was Sometimes the Perquisite of the Senior Trustee without Regard to Qualifications.

IT was near the closing hour, and I sat in my office at the rear of the bank checking over a bunch of appraisal cards which had just been handed in by the committee. The windows were open, and I suppose the rumble and noise of the city streets mingled with the soft summer sounds, the chirp of birds, the buzz of insects and, perhaps, the clack of a lawnmower, came to my ears as a sort of accompaniment to my task, too continuous and customary to rise to the plane of consciousness.

Suddenly the strident tones of an excited woman startled me. The rumble of a masculine reply was interrupted by a high pitched torrent of words, rising almost to a scream. The noise came from the public part of the bank, at the front, and I sat up alert and listening, but unable to make out the meaning of the disturbance, or the sense of what was being said. Perhaps it was only a deaf depositor. Our customers afflicted in that way always seem to believe, for some unknown reason, that the clerical force suffers from a similar defect in hearing. Possibly it was a case of misunderstanding as to an interest credit or about the balance of an account, leading an hysterical depositor to the unrestrained protest to which I was listening. At all events, the clamor had to be stopped. No savings banker likes a demonstration in his bank which may be heard in the street and start Heaven knows what rumors leading to alarm and distrust.

Thinking of these things, I sprang from my chair and almost ran to the front of the bank. There, at the receiving teller's window, I saw a middle-aged woman, plainly if not poorly dressed, with a Victorian bonnet resting rakishly over the left ear, and with the fire of excitement flashing in her eyes. Her hands were beating the air in nervous emotion, while she continued the noisy harangue which had brought me out of my office and which was still unintelligible.

Assuming my suavist and most conciliatory manner and lowering my voice almost to a whisper, I said,

"Madam, if you will just step into my private office, I'm sure I can straighten this all out to your satisfaction."

I did this to get her off the banking floor where she was already surrounded by a little group of curious customers.

She turned on me with increased fury.

"Then This is the Place"

"GO into your private office, indeed!" she shouted. "I know well enough what you'll do to me, if you get me alone, in your private office." Here she was interrupted by a guffaw from some of the surrounding auditors. But I confess that the humor of the situation did not, at the time, appeal to me.

"I know what you'll do. You'll make me fall down and worship you."

I knew, then, something of what I had to contend with, and my manner and voice became more quietly business-like than ever. At least, I tried to make them so, though I plead guilty to some nervous agitation.

"No madam," I replied. "You have made a mistake. This is a bank not a church. We don't permit any worship here."

She became calmer, at once, but a sly look replaced the maniacal excitement in her eyes.

"But you do have false gods here?" she inquired.

"Not one," I answered, "We haven't a false god in the shop."

I wish I could picture the change which, at that, transfigured her personality. Under my eyes she was transformed; she became another person. It was as though her brain had been wiped clean with a damp cloth. At one moment, I had been confronted with a mad woman, fierce in her manner, wild and threatening in appearance, capable of any violence; at the next I saw before me a rather mild and embarrassed old lady, obviously from the country, and apparently comforted and relieved, as one who has reached the end of a long and painful search.

"No false gods!" she said quietly. "Then this is the place where I want to deposit my money, if I may." And she looked up at me with a deprecating smile.

"Why certainly," said I. "That is what we are here for."

With that, she delved into a pocket concealed among the numerous folds of her old-fashioned skirt and brought to light roll after roll of currency, $2,800 in all, we found it, when she had pushed it across the counter to the teller.

"You see," she told me in a confidential whisper, while the money was being counted and the deposit ticket and signature card were being prepared. "You see, I have always had it on deposit in the bank at F..... (a nearby village) but lately they've taken to having false gods there, and every time I went in to make a deposit they wanted me to fall down and worship them. Now, I couldn't do that, could I?"

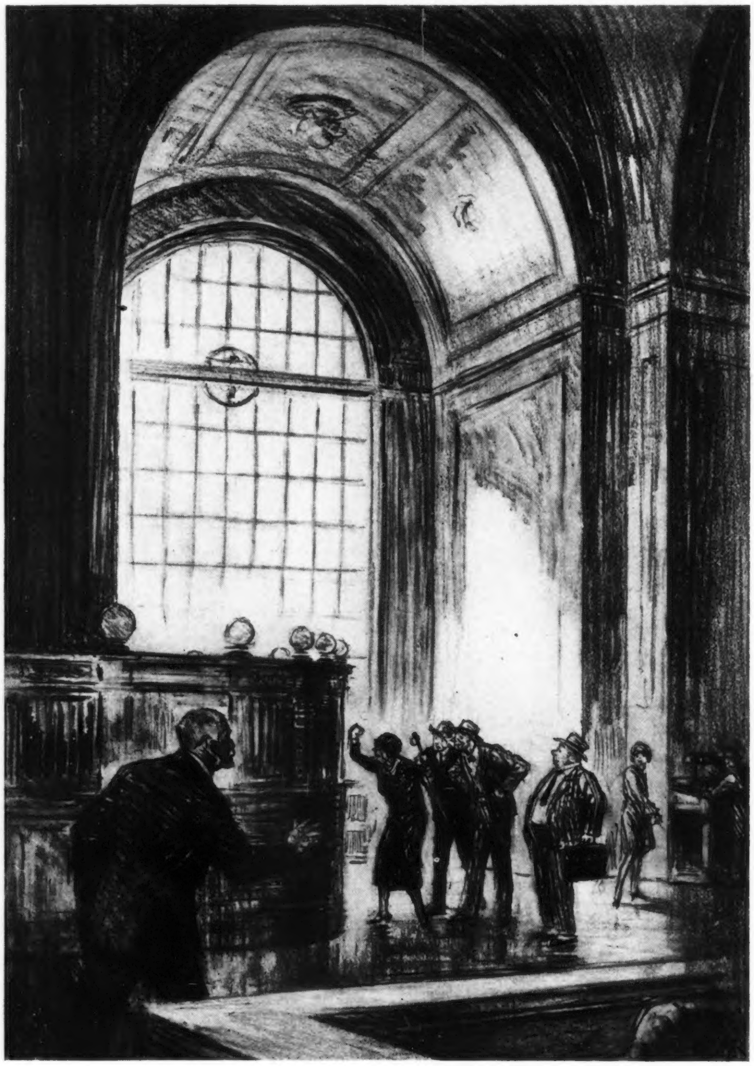
That is really the end of the story. Of course, we communicated with her family at F....., and found that she had quite recently developed this one queer mental fail-

ing. When gods or worship happened to be mentioned, she was positively maniacal. On any other topic, she was quite well behaved, self respecting and normal. The family begged us to keep the account, and, despite our natural reluctance to add a paranoiac to our list of customers, we felt that we ought not to shirk the duty. She remained our depositor for years, in fact as long as she lived, and we never again heard of her distaste for fraudulent deities, or observed any sign of mental aberration.

I have told this tale, which is absolutely true, not because of its inherent interest as one of the odd experiences which are always happening to the savings banker, but because it seems a good sort of a text on which to hang a discussion of the two views of the duties of mutual savings banks and their officers which have prevailed and, to some extent, still prevail both within and without the system. One may call them the old view and the new.

The mutual savings bank system came into being at a time, in the early part of the nineteenth century, when other banking institutions had not recognized the value of small deposits taken in the aggregate. Consequently, they rejected the small depositor entirely or refused to pay him any interest on his account. Philanthropic men, realizing that the lack of a safe depository for small sums discouraged thrift, devised the plan of receiving small savings deposits, and, as they aggregated large enough amounts for profitable investment, putting them to work in the business world, largely by lending them on real estate security, and dividing the resulting income proportionately among the "provident poor," as the depositors were called. All this was done at first freely, without cost to the depositors, as an act of philanthropy, not to say charity. For example, in the savings bank where I work, which was chartered in 1839, nobody received any pay. There was not even a charge for rent, because the operations took up only part of a store, where the president conducted his ordinary business, and the clerical work was performed by his bookkeeper, who was also officially the treasurer of the savings bank. This went on for several years, until, I think in 1843, there was found to be a surplus of $732, due largely to the impossibility of always making an exact division of income, and this surplus was then, by order of the directors, paid to the treasurer as compensation for his four years labor as treasurer, teller, bookkeeper and general factotum.

The trustees received no compensation nor did the officers, except those who actually performed clerical duties. The savings bank was then for the "provident poor" who wanted to use it. There money was cared for freely or, at least, at actual cost, and officers and trustees unquestionably felt themselves entitled to the gratitude of the people who, without their altruistic intervention, would have had to depend on the precarious security of the family tea pot or the uncertain concealment of the family mattress. To these people, the trustees felt that they owed honesty, care in investment, and prompt repayment of deposits, on demand. That their duty went further than this, that they should encourage them to do business with the bank, or advise and assist them in other matters, never, I am sure, entered their minds. The bank was there for their convenience; if they made use of it, very good; if they didn't, so much the worse for them.



With the fire of excitement flashing in her eyes

By and by the gradual accumulations of the "provident poor" reached vast sums. Elaborate buildings arose to house transactions which now represented the savings of millions of depositors and were conducted by hundreds of paid clerks. But the trustees, still not financially interested, continued to feel that they were the benefactors and the depositors the beneficiaries, and this sentiment communicated itself to active officers and clerks, whose general attitude toward their customers was, perhaps, only one degree warmer than that of a poormaster to an applicant for outdoor relief and one degree colder than that of a railway ticket agent (in those days) to the traveling public. It was a "take it or leave it" attitude. Whether the depositor was happy or satisfied in his relation to the bank meant nothing to the bank or its personnel. "If he doesn't like it, he can take his money somewhere else." And he could—without causing loss or regret to the teller, the president or the trustees.

Of course, I have overdrawn this picture for the sake of making unmistakably clear the prevailing attitude and the very human reasons for it. There were savings banks and savings bank officials who entered into very cordial relations with their customers. Tellers in the smaller banks often knew most of their customers by name. Officers circulated among the crowd on busy nights, greeting acquaintances and, perhaps a little patronizingly, shaking the hand of some old depositor. But, after all, this was rather because of natural cordiality and big-heartedness than because they recognized the "provident poor" as their employers, or realized their obligation to them. Just as much as the others, they supposed that the obligation was in the other direction.

This mental attitude had attendant evils. The trustees, who were barred from financial profit from the operations of the

(*Continued on page* 1017)

How the Bank of Italy Controls Its Operation

By JAMES A. BACIGALUPI, President

The Various Divisions and Subdivisions of the Organization by Which 289 Branch Banks are Operated, Constantly Audited Yet Allowed Freedom of Action to Meet the Requirements of their Communities. Loans Made Direct. Advisory Committee of 1700.

IN describing the method by which control of the Bank of Italy is maintained, it is essential to refer first to the chart of organization.

Rather than attempt a strictly line or staff systematization, we have employed a combination of the two types. At the head, as might be expected, is the board of directors, the members of which are to a very large degree, senior officers of the institution and actually engaged in administrative and executive duties. Apart from the board itself, we have an advisory committee, acting as the name implies, in an advisory capacity. All of the members of the advisory committee are directors of the bank, but not active officers.

Immediate management of the institution is lodged in an executive committee, which, in turn, takes its membership from the board of directors, but includes only those who are also senior officers engaged in the conduct of the daily round of business. The executive committee is vested with complete authority and responsibility and (except as it may have occasion to refer some matter of major policy to the board of directors as a whole, or confer with the advisory committee in some unusual circumstance) guides the destinies of the institution.

A Further Subdivision

A FURTHER subdivision has been made, to facilitate our operation, through the creation of two boards of management; one with jurisdiction over that portion of the state which lies north of the Tehachapi Mountains, we designate as the San Francisco Division, and the other, which we call the Los Angeles Division, has jurisdiction over the southern part of the state. Such members of the two boards as are also directors of the bank, are included in the general executive committee. These boards of management comprise our principal department heads, and in each case have as their chairmen, one of the vice-chairmen of the board of directors. The boards of management meet once each week, and as often additionally as the proper conduct of business may require. The members of these two bodies are intimately familiar with every aspect of the institution's affairs and are thoroughly capable of dealing with the many subjects that are brought to them for decision.

Entirely apart from these managerial bodies, we have created a supervisors' committee. Because of the geographical extent of our organization, and the great variety of activities with which the separate communities may be concerned, it has seemed the part of wisdom to have a competent senior officer directly in touch with the situation at each individual branch. The committee of supervisors meets upon call of the president, and holds informal and unofficial conferences. It is required of the individual supervisor that he make frequent visits to the branches under his jurisdiction, and not only interpret the policies of the institution to the managers, but also initiate measures that will build up and strengthen the local organization. The branch manager regards the supervisor as his immediate representative at Head Office where, by virtue of this personal contact, the branch is assured of a full and adequate hearing upon any matter that may be presented.

Each of the principal functions of the bank is managed by a special committee, the composition of which includes those who are engaged in the particular operation with which the committee is concerned. The chairmen of the various committees are members of the executive committee of the bank, and since all members of the executive committee are also members of the board of directors, that means each of the special committees is presided over by a director. The committees we have formed include: General finance, business extension, purchasing, building, bank properties, personnel, agricultural credits, advertising, and suggestion.

A Constant Audit

IN addition to these special committees, we have instituted an auditing committee of the board of directors itself. The personnel of the auditing committee is drawn from the members of the board who do not have active duties with the bank. They are required to hold monthly meetings, and to carry on a constant and independent audit of the institution. The work they initiate is dictated by their own members, and the reports which they prepare are made to the board of directors as a whole.

The individual operating and administrative departments are, of course, to a large extent identical with those found in any large institution. Each has its appropriate representation in the special committees, and in addition, with the boards of management, as well as the general executive committee. We find that this method of coordination insures a more perfect understanding of general policies and at the same time permits adequate opportunity for a thorough discussion of important subjects whose ramifications affect more than one department.

As a result of our experience with the operation of branches, we have found it desirable to establish local advisory boards, whose relationship to the individual branch is identical with that which a board of directors bears to the unit bank. These advisory boards meet at stated intervals, consider loan applications, lend their knowledge of local conditions to the solution of problems that arise in the administration of branch affairs, and constitute a group to which the manager may refer for guidance in any specific action. We regard as an asset of large importance the conscientious service of our 1700 advisory board members.

The actual control of the institution is maintained by properly synchronizing the functions of each of these inter-related bodies. The problem is one to which we have given a great deal of attention during the quarter of a century that we have been engaged in perfecting the organization, and it is probable that we shall continue to improve the type and character of direction, as changed conditions in the future may demand. We feel, however, that the basic system is sound, and that whatever modifications may be made, will not alter the essential structure.

The Freedom of Branches

IT has been our desire in the development of control, to allow as much latitude as possible to the several branches. We are cognizant of the fact that different communities have different problems and that our system must take into consideration these identifying characteristics. In consequence we have each branch make up its own daily financial statement on our standard forms, insofar as individual accounts are concerned. We do not maintain a super-general ledger at Head Office, but simply consolidate the daily financial statements, adding to them such items as capital, investments, etc., not carried by the branches. This reduces to a minimum the clerical effort required to keep our records complete, and at the same time it gives to each branch an identity that could be secured in no other way.

In addition to the 289 branches, we have a set of books known as Administration, where

(Continued on page 1009)

Does a Travel Bureau Help the Bank?

By A. H. PRICE

Secretary, Association of American Bank Travel Bureaus

Such a Service to Be Successful Must Be Conducted On the Same High Plane of Efficiency as a Profitable Bond or Real Estate Loan Department. Its Operation For or in a Bank By a Commercial Agency Inadvisable. Many Remunerative Features.

A Fair Prospect

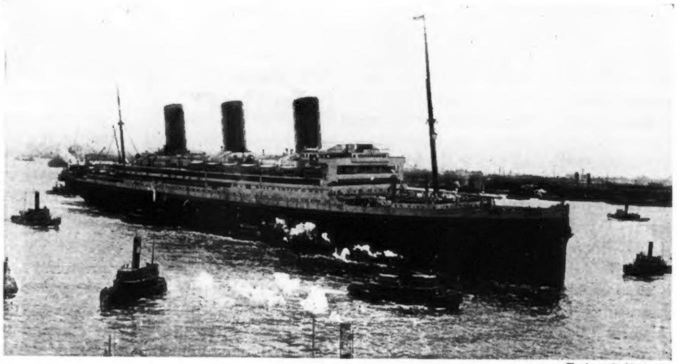
SPLENDID possibilities in the development of the travel bureau field by banks are seen by Mr. Price, who from a wide experience points out here some of the pitfalls that beginners in the work should avoid, and simple but easy paths that should be followed. He warns that the bank that does not immediately begin to realize handsomely on such a service must not be discouraged. It takes time to acquaint the public with the advantages a bank can offer along this line.

BANK travel bureaus have long existed in a certain elementary form in connection with the foreign departments of banks, consisting chiefly of courtesy arrangements for obtaining tickets and travel information for clients. Since the war, however, the development has been rapid, resulting in the evolution of separate departments with a much wider range of service and with greatly augmented staffs and facilities. In a number of cases banks took over commercial organizations to be used as a service to bank clients. Banks which had bureaus before the war expanded them when travel quickened after the armistice. Still other competitor banks noting this development felt compelled to follow suit, as a matter of necessity if not from choice.

Evolving as they have, it is not amazing that there is still a great deal of uncertainty as to the actual duties to be performed by bank bureaus and the returns to be expected. Some take the stand that the bureau must be a direct financial success. Unfortunately no bank bureau that renders fullest service to clients can ever, or at any rate in its early stage, be a strictly self-supporting department of the bank because of the great amount of non-remunerative work it must perform in serving faithfully the interests of bank clients. Others are inclined to stress the collateral benefits to the exclusion of any direct returns. In fact, there exist these two radical views and in between a host of modifications and combinations as to the function and benefits of travel bureaus.

There is one bank in the East that has operated to its own entire satisfaction a large travel bureau which does not have the agency of any steamship lines. This bank is so situated that it can occasionally charter a steamer and sponsor a cruise. However, this bureau is quite obviously not a money-making proposition—not even intended to be self-supporting.

This bank declares openly that its bureau is purely an activity of its advertising department, and that any expenses incurred are covered by that appropriation. Its contact with outsiders with resulting new accounts, its augmented foreign business through handling of drafts and travelers' checks, the prestige of a really excellent service to clients, all make it content to operate the bureau on its present basis as a non-profit organization. The bank is more than content with the indirect returns.



Ewing Galloway

The Majestic comes into port at New York

This is an extreme view of the function of travel bureaus, but not an impracticable one, as demonstrated by the success of this particular bureau.

Diametrically opposed to such a conception of bureau usefulness is the relic of days of steerage-traffic prosperity. Some banks approached today on the subject of concerted action for improving the efficiency of bank bureaus say frankly that since the passage of stringent immigration laws their bureaus have become entirely unprofitable and that a policy of retrenchment is being followed. Such banks charge the bureaus with an exact proportion of the institution's overhead, and such fixed charges, plus salaries for the bureau manager and his assistants, make it utterly impossible to keep the department "out of the red" at the end of the year. The bureau is credited, however, with only its direct monetary returns, and no valuation is put upon its indirect returns to the bank through increased business in other departments; no credit is given for its intangible but significant benefits.

Even more blind than this unfair system of evaluation is the policy of retrenchment which usually accompanies such an attitude. The bureau is removed from its conspicuous position on the main floor and housed in some obscure and often inaccessible cubby-hole with scant facilities for storing or filing its literature and supplies. No appropriation is made for advertising, and no such expenditure allowed. Management is put in the hands of an inexperienced clerk, whose only recommendation is the small salary at which he is willing to serve.

This is scarcely the policy any progressive bank would adopt in regenerating any other department. Another department of the bank, if found not self-sustaining, would either be disbanded as unprofitable or, if adjudged productive of great indirect benefits, would be

stimulated by larger expenditures, better management, effective advertising, and put upon its feet.

Not only is this blind policy followed by banks with bureaus that have suffered diminution of business, but new banks open bureaus, place them under such unfavorable restrictions, and still expect them to produce for the bank prestige and customer good-will, and even to become self-supporting through constantly increasing commissions. Such bureaus are strangled in the beginning.

Ewing Galloway

Paris from one of the towers of Notre Dame

Banks should not open bureaus unless they are first of all assured that their territory affords a sufficient number of potential clients to make the bureau eventually self-supporting. Even at that, no bank should expect this development at once, and in opening a bureau should make provision to operate it virtually on a subsidy from the advertising department until it is well established. During that time sufficient allowance should be made to cover such a favorable location as will in itself be a bureau advertisement. Other departments should cooperate by advertising the bureau with inclosures in their own distribution of bulletins to clients.

Above all, the most efficient management should be provided. Clients cannot be brought to the bureau for fulfillment of their travel needs except by the reputation for successful service which will spread from satisfied clients. Neither will good-will grow from the ministrations of the best-intentioned blunderer. Travel bureau service must be impeccable, and the staff must, therefore, be the most efficient obtainable. Any other type of bureau is worse than useless. It is no wonder that the type of bank which sets up an absolute test of financial returns as the measure of its bureau's success, and that resorts to a blind sort of economy to keep down expenditures, usually decides that bureaus are an unqualified failure.

Few bank executives will feel that they can adopt the view of the eastern bank described and operate a bureau without compensation in the way of commissions, but a great many will see the sound wisdom of that bank's valuation of a travel bureau as an advertising activity and as a stimulus and feeder for other departments. Any bank that can analyze the territory in which it is located and find potential clients to justify opening a bureau can formulate a travel bureau policy thoroughly practicable for itself.

The size of the community is not the determining factor. Some banks located in communities where there exist few commercial tourist organizations and even perhaps few sub-agents and local offices of steamship lines really have an advantage over banks in more populous communities. A small community with concentrated wealth may afford more prospects for the bureau than a much larger town with only average distribution of wealth. The most essential thing is that the bank executives have a clear idea of the kind of bureau they want, the ends they expect it to achieve, and the income limitations of a bureau serving those ends.

The Commission Secondary

EFFICIENT service to bank clients will naturally be the primary end in view. One disgruntled depositor who removes his account from the bank represents a bigger loss than can be offset by a dozen commissions gained on travelers who have been routed not so much to their own advantage as in the direction which will pay the bureau the largest return in commission. The manager will often have the hard choice of advising a client against a particular plan and thereby forfeiting a fat commission, or of allowing him to accept the plan and return full of chagrin which extends, not to the bureau alone, but the bank as a whole. Bank executives are right in demanding that the bureau manager first of all regard the client's welfare, and secondarily only consider the commission derived from the service. However, they must be prepared to put some compensating value on this vast amount of unremunerative work done by the bureau. If this policy is unvaryingly followed, clients will soon recognize it. Some of them now bring to the bureau manager of the bank, for his advice and evaluation, itineraries and estimates prepared for them by commercial agencies.

Ewing Galloway

Cantilever bridge at White Pass, Alaska

Naturally, one cannot conceive of one commercial travel bureau having submitted to it the suggesticn of a competitor, and in this one fact we see the general recog-

Ewing Galloway

Paralleling the Potomac west of Washington, D. C.

nition of a bank travel bureau as being separate and distinct from the commercial, and it behooves bank travel bureaus to live up to this difference. Clients must always be able to consult the bank bureau manager in exactly the way they would their lawyers or bankers on any other investment. Bureaus which have this standing among clients are rendering a typical banking service; others are out of harmony with banking policy.

This is the crucial point in determining whether banks can consistently put the operation of their travel bureaus in the hands of commercial agencies. A number of banks have installed as a banking service branch offices of commercial agencies. Some of these operate openly as such; others operate under the bank's name. The fallacy of such a policy would be immediately obvious if it extended to the bank's bond or real estate loan department. Clients value these services for their impartiality. For the same reason banks cannot assure their clients of impartial, disinterested service from any single organization to which they allow access to their clients through operation on the floor of the bank and through the bank's customer mailing list. Neither can a bank entirely dictate policy to any employees except those selected by and responsible to its own executives, and for this reason, as well, farming out travel bureaus will never insure a real banking service by such departments.

How Patronage Grows

PATRONAGE of the travel bureau is a thing that will take care of itself largely if the bureau is honestly committed to the client's welfare. Those who come first to consult will return later to avail themselves of the bureau's services as agent for steamship lines. They will send their friends. Other clients who have made trips to Europe and found their expenses under certain management unwarrantedly high will seek bank bureaus to arrange future trips.

As the representation of banks by certain organizations in Europe becomes more general, new phases of service will become possible. A great many large banks now have their representatives in London and Paris. It may be a matter of only a few years until such operation can be effected among all banks with efficient bureaus that they may have joint representation abroad devoted solely to the care of the clients of these banks. That is one of the objectives of the Association of American Bank Travel Bureaus. Today members of this association work together for the welfare of clients, so that a member on the Pacific Coast will help another in the Middle West book passage for his client traveling to the Orient, or one in Chicago will make Pullman reservation to New Orleans for a traveler enroute from the West Coast stopping over in Chicago.

This will eventually extend abroad, and a great many travelers now find a card of introduction from their home banks a very magical instrument in those places abroad where the home bank has representation. This is another stimulus to bureau bookings.

Naturally, since travel advice and arrangements are offered as a banking service, solicitation of business by bureaus is inconsistent. No aggressive advertising is possible. The service may, however, be unobtrusively brought to the attention of bank clients in letters, leaflets and window displays. The greater the volume of bookings, since the overhead is largely fixed, the better ratio the bureau will show at the end of the year between income and expenses.

Since, however, there is this limitation on extending the service by competitive advertising, the bureau must depend on the bank's executives for increased opportunities to serve clients. Few departments of a bank offer such possibilities for interdepartmental cooperation as does the travel bureau. Close relation between the savings department and the bureau, for instance, ought to be possible through "Save to Travel Clubs." Savings department officials are then in a position to offer the client the additional service of the travel bureau in consummation of plans for travel represented by the savings club.

The foreign banking department can with real pleasure make available to clients purchasing letters of credit, for instance, the complete service of the travel bureau, where under one roof the trip can be planned, passport matters adjusted, passage booked, visas secured, and finances correctly arranged.

Too often the bank official brings to the client's attention only these unremunerative features of the bureau's work. No mention is made of the possibility of booking passage with the bureau, and only after all these arrangements are made is the client brought to the bureau manager for some trifling and uncompensated service in taking a passport picture or obtaining a visa. Worse still, any number of officials think of the bureau's facilities only when some traveler is involved in an awkward claim for refund after cancellation. If the bureau is efficiently managed, the executives of the bank will find it pleasant to extend its courtesies to important clients. Incidentally, the bureau will be advanced by increasing its bookings toward its goal of self-maintenance.

Of course, the crux of the entire situation is the efficiency of the bureau. Personality here, to a higher degree than in most bank employees, is vitally important. Someone has suggested that a bank has a wave length, and that all officials and employees who come in direct contact with the clients are performers. If this is true, it is singularly applicable to travel bureau employees who may be said to be before the microphone every moment of the day, typifying to the public the bank under whose auspices they appear. Personal qualities are very significant. Practical knowledge of travel gained by experience furnishes the sense of sureness that makes the travel bureau manager's advice invaluable and that inspires confidence. True, it is hard to find just this combination of individuality and background, and a great many bureaus that have found the desired type of man can afford to grant him time and money to acquire the other essentials. He can learn much by conferring with other men in the business of management of bank travel bureaus. Those who have been in the business longest are most aware of the advantages of close cooperation among bureau managers and constant exchange of views. That is the primary function of the Association of American Bank Travel Bureaus, organized in 1926 and today embracing bank bureaus in twelve states, a total of forty-five strong banks.

Oriental scenes stir the imagination

Gaining Confidence

THIS standardization of practice is the one factor necessary to put bank bureaus on a basis apart from all other agencies because of their enviable rating among steamship companies. Steamship companies are predisposed toward bank bureaus as sub-agents. The sound financial backing of the bank is of course the basis of this first advantage. The high standard set by those banks which have attempted to give anything like official expression of the policies approved by bank bureaus is another encouraging sign.

Those bureaus which have already given evidence of their intention to make bank bureaus a force in the travel business, rendering a service to bank clients comparable to that afforded by the bank in any other investment, are already heartily indorsed by their banks and their clients and recognized as a big factor in the business by the steamship companies.

Saving the Independent Bank

By A. J. VEIGEL
Commissioner of Banks of the State of Minnesota

Those Who Hope to Halt the Trend Toward Branch Banking Must Cooperate in Putting an End to the Practices Which Are Causing Failures in the Individual Field. Mergers of the Small, Weak Banks in Country Communities a First Step He Contends.

THE great strength of America lies in her so-called middle class. No other country in the world has so many people who are independent and fairly well off. There is nothing in this country to prevent men with ability from advancing from the bottom to the top of the ladder.

I firmly believe that our independent banking system has done more than everything else put together to establish and maintain this individual independence. For this reason and others, I am strongly opposed to branch banking. How can we prevent branch banking from spreading? By making our independent banking system safe and capable of supplying the public banking needs.

In the future, as we look back to the present period, we will probably call it the period of mergers. There are bank, railroad, motor car and store mergers—mergers in every line. Chain stores and catalog houses are making serious inroads on our small independent stores. They usually have the advantage of buying in large quantities and, therefore, at reduced prices. It is hoped for the good of the country that at least the progressive and capable independent merchants, who are such an important part of the great middle class, will survive. Independent banks will help them to survive.

The Banker's Advantage

INDEPENDENT banks have an advantage over independent stores, because the law in many states forbids branch banking, while the law cannot forbid branch or chain stores, and also because the merchandise the banks buy is money in the form of deposits and independent banks can afford to pay as much interest for deposits as branch banks can pay.

Branch banks have advantages in that they are usually larger and can, therefore, employ more efficient executives, who see that investments are diversified and made in accordance with sound banking practices, that the credit files are complete, that incompetent managers and employees are eliminated, that regular audits are made.

In some states, especially where branch banks are prohibited, the so-called chain banking system is spreading. This term describes those groups of nominally independent banks, which are under a common management by various devices, generally by having holding companies own the majority of the stock in each bank, or by trusteeships, or by individual ownership.

Chain banking is essentially a form of unauthorized branch banking. It is much more difficult to legislate against chain banks than it is against branch banks. In some respects chain banking is even more objectionable than branch banking, especially if it is the policy of the owners to place paper in the banks in which they are interested, or on which they make a profit, or if the banks exchange paper, etc., so that each bank is not run as an entirely separate corporation and actually controlled by its directors.

> ### A Case of Do or Die
>
> *IT is up to the independent banker himself whether he is to survive the sweep toward branch and chain banking, according to Mr. Veigel, who sets forth in this article what he considers the menace of centralized banking power and the steps necessary to avert it. First of all, he contends, the independents must fortify their position by cleaning house and discontinuing practices which have tended to weaken the independent banking system and impair the public's confidence in it.*

If our independent banking system is to survive the bankers must study and adopt many of the practices of the larger corporations.

We hold many post-mortem examinations in our closed banks department on the omissions and commissions which have caused bank failures and which have also caused large losses in open banks. Many of these matters may seem small and unimportant, taken alone, but taken together they are very important. If independent bankers are satisfied with present conditions and do not take the initiative in correcting them, we will eventually have branch banks. It is, therefore, squarely up to us to put our house in order.

We have too many banks. No new charters are being granted, except where banks are clearly needed by the public, but this alone will not solve the problem. We must have consolidations, or, in some cases, voluntary liquidations, where banks do not have deposits large enough to make expenses and to charge off losses.

The most constructive work we can do now is to help bring about consolidations where conditions warrant. The people in a small village are served far better by having one large and strong bank than by having two weak banks. We believe that there should be about 200 consolidations in this state. There are about 140 banks with less than $100,000 in deposits. The state banking department and its examiners are doing everything possible in this matter, and we are getting some results—an average of about one consolidation a week.

It has always seemed, however, that the different bankers' associations could do more than they have to help bring about these consolidations. In some states the different groups have appointed committees to help in this work.

The independent banks should study and copy some of the methods of the larger corporations having branch banks. The county organizations or other convenient groups should meet oftener and take on new duties. There should be a credit bureau in each group, and credit information should be freely exchanged. Bankers should do more to help each other. Joint advertising is often more effective and less costly. A little later it may be desirable to form regional clearing-house associations.

Cooperation Imperative

IF the majority in a group think it advisable to reduce the interest rates, collect service charges, etc., the small minority should join the majority. Complete cooperation will help all banks.

Each member of the wholesale and retail credit men's associations reports to the secretary once a month the names of all customers whose dealings have not been satisfactory. These associations have secret key letters, dividing this information into about twenty classes. This information is then furnished to all members, marked only with the key letter. Why cannot bankers' groups adopt a similar plan for disseminating information?

Most banks must have larger earnings. There is absolutely no good reason why banks should not charge for all services

(*Continued on page* 996)

The Prospect of New Business

SCIENCE never retreats. Its achievements are never lost.

Printing was devised: First, crude blocks, then movable type, set by hand, and in the course of years the linotype and the rotary press.

There came the first power loom. The years have seen it steadily improved, and forms and adaptations perfected.

There came the steam engine, crude and simple, but following it came more perfect and more powerful engines — the internal combustion engine and the electric generator.

There came the first crude steamboat, and now veritable cities cross the high seas.

There came the sewing machine and it was but the herald of a whole new industry.

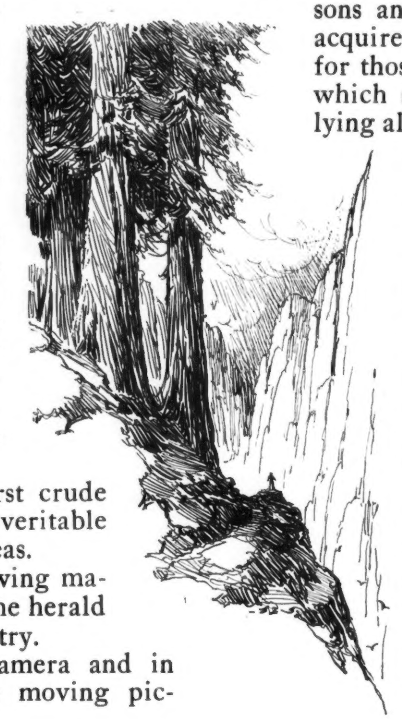
There came the camera and in time there came the moving picture.

There came the telegraph, the telephone and the radio.

This last discovery and its development to the present perfection is almost awe-inspiring in the suggestion of the next step.

After the radio what?

Our ability to thus pick voices out of the vastness of space is strong in the suggestion that man may yet acquire the habit of "listening" without the aid of mechanical devices; that he may learn to "tune in" on better things than jazz; that he may acquire, as some men in all ages—poets, thinkers, philosophers, the Washingtons, the Franklins, the Edisons and the Lincolns—have acquired, the ability to listen for those larger things of life which some men believe are lying all about us to be picked up though not as easily as the voice of the radio announcer.



Is this a fancy? If there were no unknown to draw upon we should still be back in the dark ages. Whence came Edison's thought? Not handed down to him by his father.

As everything on the air is free for whomever can tune in on it, is it strange that those more fundamental things of the universe are also universally available?

Emerson, who lived and thought and died before the era of the radio, knew of this inexhaustible field. All one side of man, he declared, lies open to Nature.

And that is why he bade us to listen to the murmurings of our souls.

This is a source of "new business" in its largest and best sense, practical as well as spiritual, as well worth the attention of

the practical man in the bank as it is of the attention of the dreamer.

By James E. Clark

The Retail-Wholesale Revolution

By W. M. KIPLINGER

Small, Unprofitable Stores Which Sap the Larger and Better Ones and Dissipate the Wholesaler's Sales and Distribution Efforts Are Being Weeded Out. Bankers Can Aid by Refusing Credit in Overcrowded Fields. Chain Stores Are Here to Stay.

BANKERS have good reason for acquainting themselves with the revolution which is occurring in wholesale and retail trade and in other phases of the process of distributing goods from factories to homes. There are losses to be avoided and profits to be made through familiarity with the changes which are occurring and which are forecast.

These profits and losses apply to banks, and even in greater degree to the retailers and wholesalers who are the customers of banks. Current conditions indicate changes as a matter of economic necessity in the next five years. These are primarily the concern of distributors themselves, but the banker who has a fair recognition of the situation can either help his customers who are engaged in working out their problems, or prod into action those who are slothful, to the ultimate benefit of both bank and customers.

The High Points

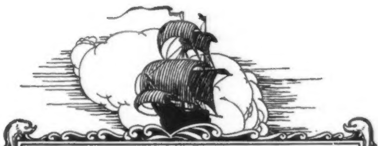
THE high points of the situation are these:

1. Many small independent retailers will be forced out of existence during the next few years, thereby benefiting the community at large, the surviving retailers, and the wholesalers, who will then be able to give better service to the remaining retailers in their competition with chain stores.
2. Chain stores are growing and will continue to grow, but will leave plenty of room for the good independent retailer.
3. Wholesalers will be compelled to tighten their methods, eliminate unprofitable accounts and lines, perhaps curtail territories, reduce service to small retail customers, increase service to large customers, and become more of a cooperating or integral part of the mechanism which starts with the manufacturer and ends with the retailer and his consumer-customers. Wholesalers will decline, die or survive in general accordance with their assiduity. Wholesalers as a class will not pass out as a result of chain stores, mail order houses, small-order buying, mass-order buying of cooperative groups of retailers direct from manufacturers; rather, they will overcome some of these factors, adapt themselves to changed conditions, and continue their proper wholesaling function.
4. Too much credit—the blood of distribution—is required under present conditions. It may be bank credit or private credit, but it must be reduced, and the credit man should take cognizance.

These are generalities, but they are a guide to the situation as a whole.

Distribution Ills

SINCE the break of 1919 there have been pronounced ills in the mechanism of distribution, involving manufacturers and wholesalers in a spectacular way, and retailers in a less spectacular way because the numerous failures of retailers were not fully charted. We had door-to-door canvassing, in which manufacturers became retailers in order to unload their heavy surplus stocks caused by the suspension and backing up of orders in the 1919-20 period. We had a tremendous growth of chain stores, which hit manufacturers and wholesalers and independent retailers. We have had a steady growth of the larger stores in urban communities, and a corresponding decline of small stores in villages, because rural purchasers drove to town over good roads and left the country store behind. We have had an increasing jumble of criss-cross selling—drug stores selling hardware, dry goods stores selling groceries, etc., etc.



The Banker's Duty

THOSE who encourage the establishment of as many stores as possible to make the community seem prosperous, or in the hope of building up profitable accounts, are doing themselves, the existing stores in their town, the community in general and the wholesalers of the district a great harm. The banker who is asked to extend credit to a new retail project should question the prospective merchant concerning his property location and then determine whether the community would support it.

"Where are we at?" became an acute question, particularly with wholesalers, for they were squeezed between retailers and manufacturers.

So the Department of Commerce made a "sample study" of distribution. It took eleven metropolitan areas, sent census enumerators from door to door of retail and wholesale establishments, got detailed figures on stocks, turnover, volume of sales, employees, wages and other expenses and various classifications of similar data covering the calendar year 1926.

Now the results have been assembled and analyzed by the Domestic Distribution Department of the Chamber of Commerce of the United States and we have the first accurate factual picture of what is going on in what is called the distribution realm, where goods are in a state of suspense between producer and consumer. We have facts about the flow, corresponding roughly to the facts which we have had heretofore about the source—manufacturers. The facts are not complete, because they come from only eleven cities, but the cities were selected with care and the results show a fair cross-section.

What the Sales Show

OF the 80,000 independent retail stores enumerated, 28 per cent had sales of less than $5,000 a year, aggregating only 1.68 per cent of total volume. Another 18.5 per cent sold between $5,000 and $10,000 a year, accounting for only 3.56 per cent of the total independent volume. Thus 46½ per cent of retail stores do only 5 per cent of the volume. Going higher in the scale, another 28 per cent had sales volume of $10,000 to $25,000, and accounted for 11.62 per cent of the aggregate volume.

It is perfectly apparent to anyone who knows the profit percentages on turnover of retail businesses that many small stores cannot survive.

Between $25,000 and $50,000 of annual sales, there is a better balance, for 14 per cent of the stores do 12.61 per cent of the business. At the top, 40 retail establishments, or one-twentieth of 1 per cent, do 16½ per cent of the total business, more than $10,000,000 a year each.

These are facts, and the suggested conclusions are these: If small stores do not make a profit, they cannot live. In the past they have failed by the thousands, but other new store-keepers have taken up the location, run their course, failed, given way to another crop of small optimists, and so on. Bankers in some cases of record are responsible for this. They encourage the establishment of as many stores as possible to make the community seem prosperous, to prevent vacant store rooms, and in the hope of building up profitable retail accounts.

In the long pull, this is folly. The small stores sap a little strength directly from the larger and better stores. The main effect, however, runs back on the wholesaler and from him bounces upon the larger retailer. The wholesaler who dissipates his sales efforts, his delivery, his billing, his collecting, his credit, on the uneconomic small store, has too little left for the larger customer. Freed from the liability of the hopeless small store, he can cut expenses, focus his

(*Continued on page* 1005)

Philadelphia's Three Great Financiers

By HERMAN COLLINS

Robert Morris, Stephen Girard and Jay Cooke, Each Was a Vital Factor in a Crisis of the Nation, Rendering Invaluable Service Under Extraordinary Conditions. Girard Established a College for Orphans. His Estate Today Is Estimated at $100,000,000.

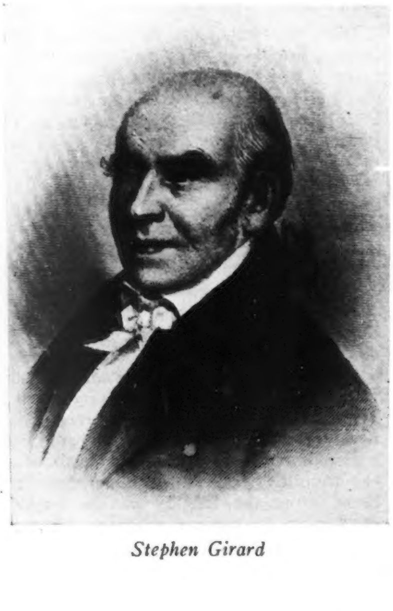
AT three perilous crises in American history, three Philadelphia financiers saved their country from financial ruin. The first of these, Robert Morris, may be truly styled father of American banking. It was the genius and patriotism of Morris which enabled the Continental Congress to obtain funds to maintain Washington's army during the Revolution.

Stephen Girard, second of that trio of Philadelphia financial patriots, became the first nationally known private banker on a great scale in the United States. Girard's optimism plus his faith in the future of his country, alone prevented a colossal failure of credit during the War of 1812.

And in the sixties when states of the Union were battling each other almost to the death, it took the amazing ability of Jay Cooke, single handed, to float a greater amount of Federal bonds than any nation in the world had ever sold during an equally brief period.

The story of Robert Morris, Stephen Girard and Jay Cooke comprise three distinct epics in American finance. They are symbolic of what may be expected of American banking when a crisis comes.

Robert Morris was brought from England to Philadelphia when a boy of thirteen.



Stephen Girard

Robert Morris

There was not then and for nearly forty years afterward a single bank in the Western Hemisphere.

At the age of twenty, Morris became a partner of Thomas Willing. That was more than two decades before the battle of Lexington. They were merchants, exporters and importers and at the outbreak of war, Willing and Morris were the richest mercantile firm in all the Colonies.

As a leading citizen of Pennsylvania, Robert Morris was naturally sent as a member of the Continental Congress. He opposed immediate independence in 1776 and voted against the Declaration.

Such, however, was his brand of patriotism that when Independence was declared, Robert Morris signed the Declaration. He stood ready to abide by the alternative suggested by his fellow Philadelphian, Benjamin Franklin:

"Now, unless we all hang together, we shall assuredly be hanged separately."

But it was one thing to resolve to fight and a quite different thing to finance armies which must do the fighting.

Then it was that the supreme genius of Robert Morris met the crisis. Such was his reputation that in one night, he raised in Philadelphia, late in 1776, $50,000 in gold and silver money.

Congress promptly elected Morris Superintendent of Finance, a title which quickly was shortened in practically all contemporary and official references to "Financier."

So the veteran merchant is ever known as the "financier of the Revolution." His work more than justified the title.

He purchased with his own funds flour for Washington's starving army at Valley Forge.

Then in 1780, as a means of raising funds to carry on the government and the war, Morris organized the first bank in America. It was called the Pennsylvania Bank and had only a temporary existence.

But immediately afterwards with the assistance of his old partner Thomas Willing and others, Robert Morris established a new bank called the Bank of North America.

That bank after 147 years still exists and is the oldest on this continent.

Like Franklin, Morris not only signed the Declaration of Independence, but also helped frame the Constitution of the United States and signed it. Washington offered to make him the first Secretary of the Treasury, but Morris declined, and became Pennsylvania's first United States Senator.

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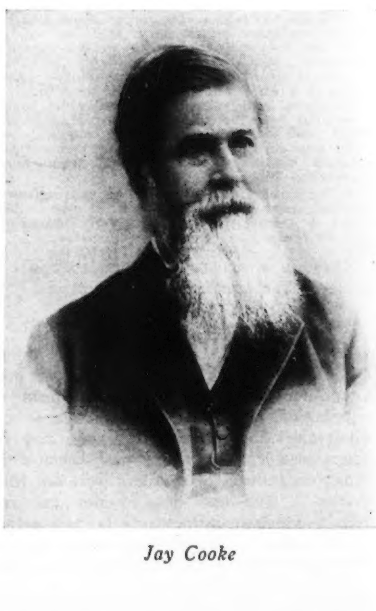


Jay Cooke

Payment of War Claims Under Way

By E. E. MOUNTJOY
Deputy Manager, National Bank Division, American Bankers Association

Congress Takes Final Step for Return of Seized Property of Aliens and Full Settlement of Awards by the Mixed Claims Commission. German Nationals to Get Fifty Per Cent of Such Awards Immediately, Remainder to Await Full Payment to Us.

CONGRESS has, nearly ten years after the close of the World War, enacted legislation for the settlement of all war claims. If the delay seems to some unnecessarily long, it might be explained that the time was not wholly wasted. Plans for effecting settlements with our former enemies have been under way for a considerable time and definite steps looking to the final disposition of claims and seized properties have been taken. The value of all this preliminary work will be realized in the final closing of accounts.

In 1921, under the treaty of Berlin, it was agreed that the German property which had come under the control of the United States during the war should be retained by this country until provisions could be made for the satisfaction of claims of American citizens against Germany.

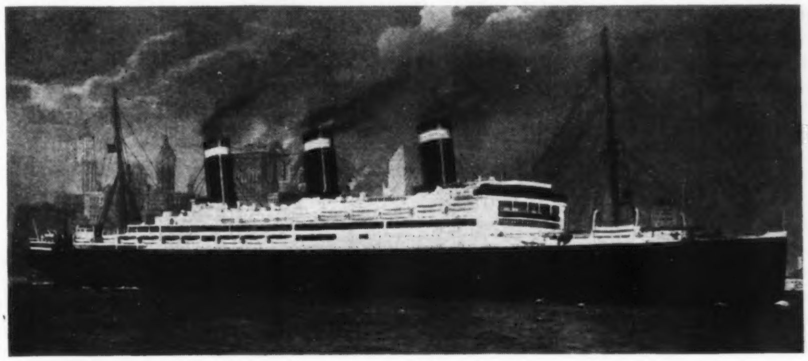
So, under the 1921 treaty, an agreement was reached, in 1922, for the establishment of a tribunal to determine the validity of American claims and fix the amount in each case. This body was called the Mixed Claims Commission. It received full powers to pass upon all claims made by Americans against Germany and to make final awards, which would constitute binding obligations upon the German government.

A Flood of Claims

IT was necessary that claims be filed with this commission before April 9, 1923. There was a flood of them and the commission had a tremendous task in passing upon them. By November 30, 1927, virtually all claims that had been filed had been acted upon by the commission and the awards, plus interest allowed, had reached a total of $215,000,000.

The success of the operations of this commission led to the creation of a similar one to handle the claims of Americans against Austria and Hungary, since the United States was not a party to the Treaty of Versailles. This body was known as the Tripartite Claims Commission and its methods were exactly the same as those of the Mixed Claims Commission. It was possible, however, to file claims before the Tripartite commission as late as January 25, 1927.

The result of the work of these two commissions was such that early this spring all claims of Americans against Germany and Austria and Hungary and their nationals had been definitely adjusted and all that remained was the adoption of a method of payment. This was the work cut out for Congress and this was accomplished in the Settlement of War Claims Act, which became a law on March 10, last.



The Leviathan, formerly the Vaterland

This act provides for the payment of four kinds of claims, namely:

- United States nationals against Germany;
- German nationals against the United States;
- United States and its nationals against Austria and Hungary;
- Austrian and Hungarian nationals against the United States.

Apart from Dawes Plan

THE settlement act has no bearing upon claims for expenses of the United States Army of Occupation. These are taken care of under the Dawes Plan. Although this country was not a party to the agreement which put the Dawes Plan into effect, we were represented at the Paris conference which determined the division of the payments which Germany should make under the plan. The Paris conference also allocated to the liquidation of Mixed Claims Commission awards 2¼ per cent of all receipts from Germany under the Dawes Plan, this not to exceed $10,700,000 a year, however. From this allocation may be gained an idea of the time which would be required to satisfy the $247,000,000 of awards by the Mixed Claims Commission if payment depended entirely on the Paris conference provisions.

In the Settlement of War Claims Act provision is made also for the return of alien property seized by this country during the war, and for the return of which no provision had hitherto been made other than to allow $10,000 on each German claim up to that amount. Now, the United States is to return to German nationals promptly 80 per cent of their property held by this country. The remaining 20 per cent will be retained as a sort of pledge that full payment of American claims will be made. As an immediate substitute for this 20 per cent certificates will be issued participating in a fund to be assembled in a German special deposit account to be set up in the Treasury Department. From this account all payments to German nationals and to the United States and its nationals will be made. The United States does not assume a definite obligation for payment of the participating certificates, but will pay them if Germany remits, either voluntarily or through the Dawes plan, a sufficient sum to liquidate all American claims.

All property of Austrian and Hungarian nationals is to be returned to them as soon as these governments deposit in the Treasury Department sums sufficient to liquidate all claims of the United States and its nationals. Austria and Hungary prefer to make their settlements in this way. This insures rather prompt payment of all Amer-

(*Continued on page* 998)

EDITORIAL

The American Bankers Association

THE first four pages of this issue give a readable and interesting presentation of the work of the American Bankers Association and tell how that work is divided and subdivided to the end that it may be carried on expeditiously and effectively.

The outline is worthy the serious attention of both the member banks and those banks that are not members of the Association.

To the former it is a picture of all the activities of the Association whose benefits are open to them, whereas it may sometimes happen that a member bank does not utilize to the fullest extent all the privileges that membership confers.

To the latter—the non-member banks—it should indicate that membership instead of being an expense is an economy.

To both classes it presents the salient features of a virile business organization working for the protection and betterment of banking as a whole, rendering to all banking a service which many individual banks—if able to accomplish at all—could accomplish only at a prohibitive cost of time and effort.

A national association in any profession is a bulwark of safety for the whole profession and that alone would justify its existence as a necessity, but the American Bankers Association has a broader and more fundamental mission. Its educational and service features touch banking everywhere and are designed to do these three things:

(1) Protect banking—not merely from the depredations of the outlaw but in those more subtle assaults which are constantly being made against it through the medium of misconceived laws, and uneconomic schemes.

(2) To promote the understanding of banking through special studies now being pursued by 38,000 students in the American Institute of Banking; to promote the understanding among the people at large of what banking means to them and to the continuance of their employment and their prosperity.

(3) To add to the efficacy of banking, and banking methods everywhere to the end that waste and unsound methods and practices may be eliminated, and that the business of the average banker shall become safer and more profitable; that the bank may be of still greater value to its community.

New Prosperity for a Great Region

THE Flood Control bill, approved by the President last month initiates the work of controlling the Mississippi River to the end that there shall be no recurrence of the appalling floods of 1927.

The project it is estimated will cost $325,000,000 and perhaps much more. As a matter of fact great engineering projects of this nature usually cost much more than the preliminary estimates indicate.

The magnitude of the work may be judged by reference to the cost of some well known pieces of public works. The investment in the Panama Canal is placed at $236,674,901—after writing off $113,122,893 for national defense because fortifications, etc. should not perhaps have been considered a part of the canal proper.

The Suez Canal cost $127,000,000; the Manchester and Liverpool Canal $85,000,000; the Chicago Drainage and Ship Canal $55,208,889. Each of these pieces of work was done at a time when a dollar would accomplish more than it now does.

There is rejoicing in the Mississippi Valley over the prospect of permanent relief from the dangers that have hung over it for years. There is rejoicing, too, over the prospect of the new prosperity that this work will give when it shall have been started.

It is a reasonable expectation also that in the train of this work there should come a new degree in the development of a great region hampered by the fear of freshets.

The rest of the United States is concerned over the prosperity of the valley and, we believe, regards with satisfaction the determination of the government to attack the problem on the great scale that has been planned.

An Attendant Evil of Investigation

A RESOLUTION of the Senate instructs the Federal Trade Commission to make an investigation of chain stores, and the resolution is so phrased that in the mind of the reader there is likely to be raised a question as to whether or not the chain stores are fair dealers back in the executive offices where plans, policies, campaigns and contracts are made.

The Senate of the United States is a sagacious body and however much members here and there criticized for individual acts, may merit the castigation of public opinion, the Senate as a body deserves the respect of all good citizens. Business, too, deserves the respect of all good citizens both in official and in private life, and to it public opinion should accord the presumption of innocence until it is proven guilty. The bandit who invades a chain store with pistol in hand—and robs, or perhaps murders an innocent clerk is under the law presumed to be innocent until he is proven guilty, yet under the practice at Washington a few words spoken in either House of Congress against a corporation or a whole class of corporations may have, upon millions of minds all over the country, the effect of a conviction.

Is this fair to business, or to the investors in business?

Without regard to the merit of the proposed investigation or the facts leading to it, the establishment of the chain store was a logical and natural development of business, and always the principal reasons for its prosperity as an institution have been obvious.

It is the business of the Government to protect the people but it is to be regretted that the practice of

looking into things by the Government must so often be a spectacle, comparable to a police patrol dashing up to a private residence with a crowd of uniformed men to interview a startled citizen over the suspected infraction of a city ordinance.

The other view of the proposed chain store investigation is that these stores, through their prices, and their methods touch the pocketbooks of practically the entire population. It is not only the people who buy from the chain stores but the people whose products find consumption through these stores who are vitally interested parties. When all who are on the producing and manufacturing side are assembled, the list is a long one.

In the bill calling for the investigation, it is estimated that there are about 4000 chain store systems operating a total of about 100,000 stores. The Federal Reserve Board has compiled figures showing that the annual sales of chain stores—and mail order houses—increased from a little over a billion dollars in 1919 to almost three billion dollars in 1927.

So it is quite evident that the chain store organizations can wield great power in their efforts to buy shrewdly and that any slight advance in the prices of a few of the necessaries of life must in the course of a year's business mean a handsome total of what might be termed, unnecessary profits. There is, therefore, ample justification for inquiring into the practices prevailing in this form of merchandising.

"The Greatest Asset"

NO financial institution in the world employs more boys than does the New York Stock Exchange. In addressing these recently E. H. H. Simmonds the president of the Exchange pointed out a pathway to success, entry to which is not confined to boys of the financial district but is open to boys and men everywhere. A remarkable statement of the practical value of one simple, easily acquired habit, it might well be reprinted in large type and hung in every bank in the country:

"Simple courtesy is the greatest asset that a boy or a man can possess. It is different from manners, because manners may be artificial, while courtesy is natural and instinctive. So many young men feel that, to assert their independence, they must be brusque and even rude. That does not show their independence. It shows their dependence on bluff. It shows a lack of self-respect; for he who does not respect others, cannot respect himself. The discourteous youth may win advancement, but he is badly handicapped in the race, and success will never savor rightly to him.

"Remember, I am not speaking now of dancing master manners, but of that feeling that will not willingly or intentionally hurt another. It is courtesy that begets real manners, because manners are merely its visible manifestation. Many a young man loses his finer characteristics through enforced association with others who are indifferent to or contemptuous of the little decencies, the little refinements, the manners, that seem so little, yet loom so large in the making of life worth while. Have you ever felt a shiver at some rough remark, at some suggested action? Have you ignored it in order not to be singled out from the crowd? If you did, you did wrong. A great writer and philosopher once said: 'Every involuntary repulsion that arises in your mind, give heed unto. It is the surface of a central truth.'"

Courtesy is an outstanding characteristic of our banks but there is no danger—amid changing personnel—that there shall be too much courtesy. It gets business, and holds business where apparently more substantial qualities are ineffectual.

Faith and Credit

IF spirituality were taken out of civilization, then civilization would decay, and probably one of the first places in which the breakdown would be felt would be in the credit structure. One of the main supports of the credit structure is honesty, and honesty is born of a belief in spirituality. A timely and an important statement was made concerning this by President Coolidge in his address last month at Phillips-Exeter Academy when he said:

"The whole foundation of enlightened civilization, in government, in society and in business, rests on religion. Unless our people are thoroughly instructed in its great truths they are not fitted either to understand our institutions or provide them with adequate support.

"For our independent colleges and secondary schools to be neglectful of their responsibilities in this direction is to turn their graduates lose with simply an increased capacity to prey upon each other. Such a dereliction of duty would put in jeopardy the whole fabric of society. For our chartered institutions of learning to turn back to the material and neglect the spiritual would be treason, not only to the cause for which they were founded but to man and to God."

Timely because this is the season when many young men who entered colleges with the faith of their fathers are graduating sans faith and sans respect for the very things that made our country what it is. Important because it may cause many a young man who has risen superior to the faith of his fathers to ask himself whether he may not be leaving behind as he departs from the college, more than he takes with him!

An Installment Selling Idea

A LONDON letter announces the contemplated establishment of a new application of the installment selling plan—railroad tickets for vacationists, so much down and so much per week; "the company's collector will call at the house of the purchaser for weekly payments."

The American travel club plan and save-to-travel accounts advertised by American banks are of course designed to accomplish the same end, to induce men and women to save in advance for the annual outing, or the trip extraordinary. This projected English plan it will be observed cuts out the bank and provides the additional inducement of the collector at the door, who combining salesmanship with his other duties will have worth while opportunities to extend his employers business.

If the projected plan should be so successful abroad as to induce American railroads to adopt it, there would be lost to many of our banks a certain class of business valuable in itself, and desirable because of the banking habit and banking association it establishes with many people who can not readily be attracted to the bank by the ordinary conservative appeals.

THE number of banks reported to have established personal loan departments during the last month is suggestive of the possibility of a personal loan department in time becoming one of the ordinary features of banking. Aside from the obvious commercial opportunities that are entailed, the personal loan department offers opportunities for community service. Not the least among these will be the saving of many persons from the clutches of the "loan sharks," who thrive in most cities yet contribute nothing constructive to them.

As Cartoonists View Events of the Day

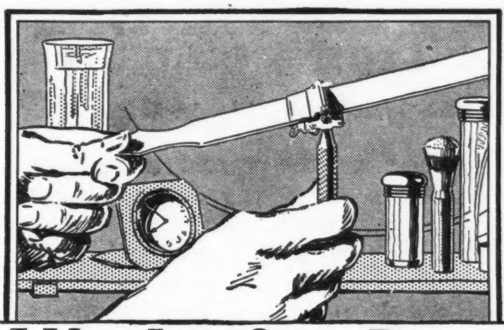
If Parents Did This There'd Be Less Work.—Thiele in the Shreveport Times

But It Really Pays to Be Cautious.—Quin Hall in the Bangor Daily Commercial

Rope Walking Under Difficulties.—Galliher in Capper's Weekly

"Pigs Is Pigs."—Spany in the Montgomery Advertiser

FINANCING AMERICAN INDUSTRY



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THE AutoStrop razor is unique in being the only razor with a stropping device as an integral part. The desirability of this stropping feature, in its effect on the smoothness of the shaving operation, is self evident and is further emphasized by the fact that a number of independent stropping devices for other types of razors have been developed and have found a wide sale.

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Bonds ***Short Term Notes*** ***Commercial Paper***

Forecasting the Price of Railroad Bonds

By EDWARD F. MCCABE
Asst. Cashier, Lake View State Bank, Chicago

Bank Borrowings a Sensitive Indicator of a Probable Trend in the Price of Railroad Bonds. The Sequence of Events When the Price of Rails Slumps and the Corresponding Steps When the Swing Is in the Other Direction. Bonds as Bank Reserves.

FORECASTING the price of railroad bonds is important and profitable because of the increasing bond holdings of the modern bank. Railroad bonds make ideal bonds for a bank to purchase because of the splendid security, high marketability, good yield and stability of price.

Usually a bank increases its bond account by gradual purchases. Hence, the bond buyer does not have much opportunity to make large purchases, within a short period, of any type of securities unless he sells an equivalent amount.

In selling bonds it is always easy, barring exceptionally high income taxes, to sell a large block of bonds, accept the profits and reinvest in another type of bonds. This gradual or sudden reduction in one type of bond in favor of another type is still looked at with suspicion by the more conventional bankers. But a shift from one marketable bond to another of equal security and marketability cannot justly be labeled speculation. Liquidating assets and reinvesting afresh is no sign of weakness or lack of good business judgment. Rather, it clearly shows that the bond account is in a liquid condition and is a real secondary reserve. It shows that the bond account is no dumping ground for industrial derelicts from a loan department. To have a bond account, part of which may be quickly liquidated in favor of another type of bond shows that the bond account consists of marketable and hence liquid securities. Without liquidness a bond account in a commercial bank is not performing its proper function. It ceases to be an adjunct to cash. And when it ceases to be an adjunct to cash it ceases to have a reason for existence in a commercial bank.

A *Mistaken Policy*

HENCE, it follows that a bank that confidently believes, say that industrial bonds are overpriced and still refuses to liquidate its industrial holdings in favor of public utilities or railroads is following a mistaken policy. Due care for diversification must, of course, be kept in mind. But diversification does not prevent a transfer of, say one-tenth, of the entire bond account from a declining type of bond to a class that is appreciating.

The real point is how to decide when to make this transfer. The following method

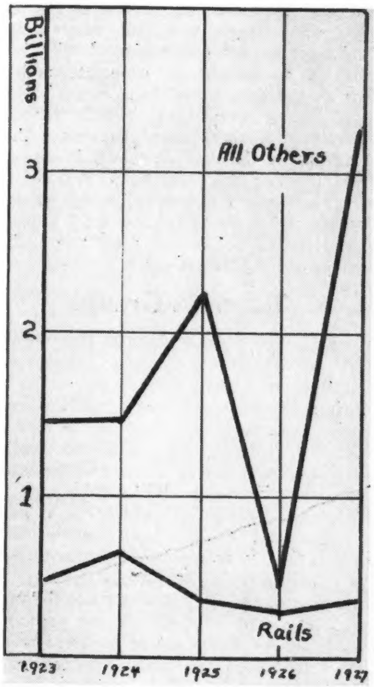

CHART I
Supply of railroad bonds and all other bonds

of deciding when to buy and sell railroad bonds is submitted!

The supply of railroad bonds is relatively constant. This is shown in Chart I in which the fluctuations from year to year of rails is but slight compared to the wide fluctuations found in all other issues combined.

The demand for railroad bonds comes chiefly from banks and insurance companies. This is best shown in the investment lists of insurance companies and the occasional bank statement that lists its bonds by the various types.

Variations in bank holdings of railroad bonds constitutes the chief ebb and flow of the demand for railroad bonds. This is indicated in Chart II in which the holdings of Federal Reserve member banks, "other bonds, stocks and investments" is shown. This monthly figure is not made up entirely of railroad bonds, but a large part of it is.

It will be seen by studying Chart II that the price of railroad bonds moves in close relation to the holdings of "other bonds, etc." This is but logical, an increase in buying puts the price up and a period of selling sees a slump. For instance, through the first half year of 1922 when banks were buying rails, the price increased. Again, in July of that year a period of selling set in, and by August a decline in rails set in that lasted until the end of the year.

The Sequence of "Swings"

BUT this relationship is not simply a case of buying and selling railroad bonds by the banks. Banks buy or sell for specific reasons. If we can find some indicator to tell when banks are going to buy, or are going to sell, we will have a warning signal that will be worth watching. Banks sell bonds when they need the money for reserves, and buy when they have a surplus of money. The trend of borrowing is a sensitive factor. Chart II gives bank borrowings from 1921 to 1928; this line is the first indicator of when to buy and when to sell:

First—Banks increase their borrowings.
Second—Banks sell their railroad bonds.
Third—Price of rails slump.

The aim is to sell before the price slumps. Usually there is a month or more before the slump sets in after banks have begun to borrow heavily. This is shown in 1922 from August on. During the remainder of the year and well into 1923 the banks were increasing their bills payable, and reducing their holdings of railroad bonds, and the price of rails declined, though the general trend of bonds was upward during this period.

In forecasting the upward swing of railroad bonds the sequence is as follows:

First—Banks reduce bills payable.
Second—Banks buy railroad bonds.
Third—Prices go up.

After October of 1923 the banks steadily reduced their bills payable, and at the same time increased their holdings in railroad bonds. The chart indicates that prices rose steadily during this process.

The effectiveness of this method of operation should increase as banks increase their reliance on bonds as a reserve. As banks increase their bond holdings so, too, will they increase their influence on the

(*Continued on page* 1008)

Analyzing Bank Income and Expenses

BY CHARLES F. GETTEMY
Assistant Federal Reserve Agent, Federal Reserve Bank of Boston

A Schedule Devised With View of Developing a Standard Classification of Principal Items of Income and Expenses. Results of Study of Comparable Data Collected from 48 New England Banks. No Charges for Rent Made by 27 Banks.

THE Federal Reserve Bank of Boston for the last six years has made an annual study of operating costs and earnings of member banks in the First Federal Reserve district, based upon data transcribed from periodical reports filed by the banks with the Comptroller of the Currency and with the Federal Reserve Board. The published results of these studies have been widely commented upon and have stimulated a considerable interest in the subject. But the expressed desire of numerous banks that some of the items as reported to the Comptroller be "broken up" in greater detail and more clearly defined prompted us to devise a schedule with a view to its being developed into what might ultimately be accepted as a standard classification of the principal items of bank income and expense on which returns might be made direct to the Federal Reserve Bank and which could be used as a basis for a more comprehensive study of the subject.

The reporting form thus devised and sent out to a limited number of member banks was purposely made as simple as possible, and for that reason the classification of items was made very comprehensive and admittedly lacks the detail which large city banks with more or less intricate ramifications of organization must require. For example, this schedule calls only for aggregate figures to be reported for the several items for an institution as a whole, and makes no attempt to provide for a distribution according to banking functions such as is necessary in order to arrive at functional or departmental costs. That is a highly desirable objective but its accomplishment involves so many problems that it was deemed wise to conduct our experiment first with a simple form of classification such as might be expected to have an appeal for the average country bank, which after all is in the great majority; and then, as experience and interest in the subject develops and broadens, to expand and develop the schedule into a form calculated to fit more accurately the needs of the larger and more intensively organized banks.

The schedule was not sent to all of the member banks in the First District. Letters merely explanatory of the general purpose were first sent to 135 member banks outside of Boston, but a copy of the schedule was not transmitted with this first letter since it was deemed desirable to ascertain how many banks there might be which would indicate in advance an interest in the subject. The result was that seventy-eight banks of the 135 communicated with indicated a willingness to cooperate and to furnish the data called for. But of these, again, there were thirty which for one reason or another, failed to return their schedules by the date on which it was decided to close the tabulation. We did receive forty-eight schedules, which it was possible ultimately to tabulate on a uniform and comparable basis with respect to all important and significant items.

Taken as Groups

OBVIOUSLY data obtained from a considerably larger number of banks are desirable and would furnish the basis for much more representative studies and conclusive deductions, and therefore be of considerably greater value to all the banks, than can be expected from returns based upon only forty-eight banks in a total of 393 outside of Boston. Moreover, it must be appreciated that the real value of such figures to any individual bank consists in the relationship of the various items of its own income and expense account to the total of similar items, not for all the reporting banks, but for the group of banks to which that bank can properly be assigned in a classification of the whole number. Hence it is important that reports be obtained from a fairly large number of banks in order that, when they are subdivided or classified into groups, the respective groups will not be too small for the data to possess significance.

The question of selecting a proper basis for classifying the whole number of reporting banks into groups so that each separate bank may be a unit in a group of banks with which its own transactions may be reasonably and logically compared, and so that percentages of important items of income and expense for an individual bank to the same items for the group as a whole, may be accepted as possessing some significance and as casting some light on operating efficiency, is a problem in itself of no slight consequence. Obviously there are several methods of grouping or classifying banks which might be adopted. There is, for example, the geographical basis. This, it would appear, may be dismissed as having little if any significance in itself upon income and expense relationships. Second, there is the common plan of classifying banks into groups according to their size and when we think of the mere size of a bank, we usually do so in terms of deposits, or resources. Another basis of classification, also involving the size concept, is in accordance with the volume of gross loans and investments.

But each of these methods of classification is more or less arbitrary and is defective in that it throws into each group numerous banks doing a varying kind of business and therefore having different and non-comparable kinds of income and expenses. For example, regardless of size or geographical location or character of population in the vicinity, the percentage of expense to income of a bank with heavy interest charges to meet but with little or no trust or other business, is hardly comparable with that of a bank a very considerable portion of whose income is derived from trust and other services and whose interest expense may be relatively small. A comparison of operating percentages in such cases might cast very little light on comparative results of management. Therefore, the kind or character of business is the proper and logical basis for classifying banks rather than size or other considerations, with perhaps some modification, such as, for example, the segregation in the New England district of the Boston from the out-of-town banks, not because they may have a larger volume of business than the out-of-town banks, but because of their different reserve requirements and because their transactions are peculiarly influenced by their accessibility to a Federal Reserve Bank. In this connection it is interesting to note that the difference in the percentage relationship between income and expense for the smallest bank reporting in this study, having deposits of less than a million, and that of the largest, with deposits of over thirty millions, was negligible.

The Classification

THE basis of classification just explained was applied experimentally to the forty-eight banks reporting to the Federal Reserve Bank of Boston income and expenses for 1926. Of this number, twenty-one fell into the group which do practically only a commercial and savings deposit business while twenty-seven derived a substantial income from other sources. These two types may be described as respectively, non-depart-

(*Continued on page* 986)

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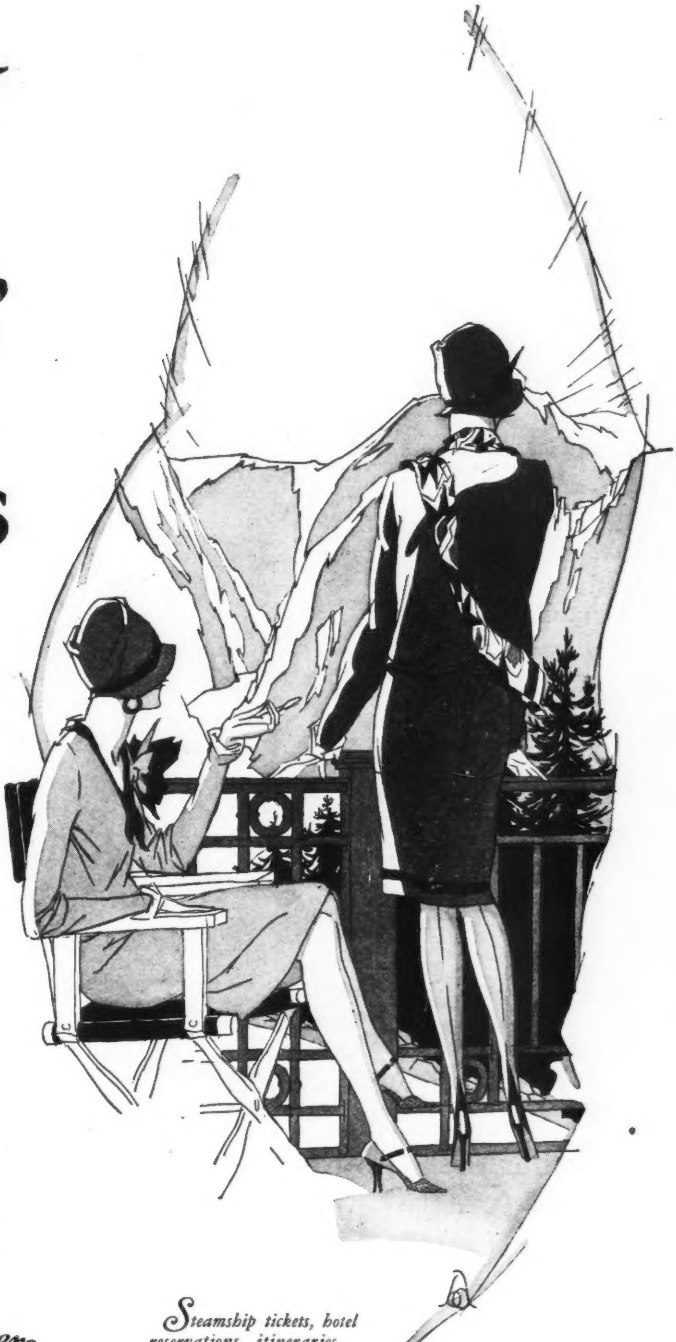

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The Corn Borer Steadily Advances

By C. B. SHERMAN
Associate Economic Analyst, United States Department of Agriculture

All Hope of Total Eradication Abandoned, Government and State Experts Turn Their Efforts to Holding the Damage Done By the Pest to a Minimum. Improved Clean-up Methods and Modified Farm Practices Successful. Bankers Can Play Important Part.

THE nation's corn crop, which often approaches 3,000,000 bushels and is usually harvested from about 100,000,000 acres, had a farm value last year that exceeded $2,000,000,000. But although our corn crops are a succession of mammoth totals, corn is subject to many hazards. And now that the European corn borer, the most dangerous enemy of Indian corn that has ever appeared in America, has passed from the sparse corn areas of New England, through New York and Pennsylvania, and begun its invasion of the great Corn Belt, the farmers and the local, state, and Federal forces are combining in vigorous and determined measures to prevent serious and widespread losses to this our greatest crop.

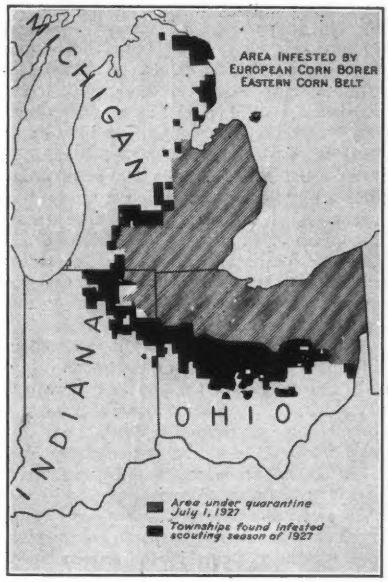
Thus far investigations by the United States Department of Agriculture have shown conclusively that the total eradication of the European corn borer in this country is beyond the realm of possibility, but it is believed feasible to reduce the numbers of the borers in any given area to such an extent, by improved farm clean-up methods and other cultural practices, that the damage by the insect can be kept below the point of serious commercial loss. Then, if good cooperation in observing the regulations regarding the transportation of quarantined products can be secured from all concerned, further spread, although practically inevitable, can be reduced to a minimum.

Although a variety of native natural enemies of the European corn borer, such as birds, have been recorded in this country, they do not usually attack the pest in any important numbers, and from present indications cannot be relied upon to hold the corn borer in check.

We have learned to live, and at times to prosper, under boll weevil conditions and with other pests which apparently can be controlled but not eradicated; it now becomes our task to learn to live and prosper in company with the corn borer.

Bankers Can Aid

AS the quarantine rules are now well known in the affected areas, and as methods of farming successfully under corn borer conditions are now being worked out and tested, it becomes a matter of education and leadership to obtain whole-hearted adherence to the rules and methods thus laid down. In this the bankers of the infested areas, and of those areas which are liable to invasion, can and doubtless will be of great aid. They are in a position to advise, and at times even to insist, on methods that will save the corn crop to their farmer clients and to their communities, even though these methods may require some extra expense, some extra work, and a considerable exercise of patience. They can also help the farmers plan for the necessary extra work at the time when it least interferes with other farm operations.



The borer is spreading rather rapidly to the West and South, but commercial damage has thus far been limited to a few areas near the Great Lakes

On most farms in the areas of the Corn Belt that are already infested, corn is the most important cultivated crop in the rotation, and is a primary source of feed for the livestock enterprise. Moreover, the borer is only beginning to reach the areas of heavy corn production. The problems of adjusting farming practices to corn borer conditions obviously will be more serious as the infestation spreads and increases to the West and Southwest.

The farmer's problems vary with the degree of infestation and with farming practices in different localities. In some regions the advent of the borer will not require great changes in systems of culture. For example, in northeastern Ohio and eastern Michigan, where the acreage of corn per farm is relatively small, or where a large proportion is put into silos or shredded, the problem of borer control is simplified, and the principal precaution is the cutting of stalks close to the ground so that the borers will be killed either by the knives of the cutting machine or by the acid that forms in the silo.

A Different Situation

AT the opposite extreme are localities where much of the corn is "hogged down," leaving most of the stalks broken and scattered in every direction. This makes it difficult to break or cut all of them loose for raking or burning, also difficult to plow them under. In some areas, such as northwestern Ohio, the soil is not suitable for deep spring plowing of corn stubble or stalk ground, because that means a poor seed bed and a reduced yield of grain. In much of this area, too, the small grains (wheat, barley, and oats) are relatively unprofitable, and corn is the main crop. Here the usual practice is to follow corn with double disking of the ground for small grain.

Last year experience indicated that if the borer was to be controlled under such circumstances, the stalk breaking, raking, and burning would require more than four hours man labor and nearly four and a half horse hours per acre. On farms with large acreages of corn, this would prove a serious expense. The offset in this case is that much of the stalk clearing can be done during the late fall and winter and not in the rush season of spring.

When the corn is cut and the whole stalks are fed in the feed lot, the stalk remainders must be disposed of completely. The department believes that this practice can be modified to advantage on some farms by shredding more of the corn or putting it in silos.

In localities in which corn land can be plowed either in the spring or fall, infestation can be kept down to a degree where it is not likely to require serious modifications of existing methods by practicing low cutting, by deep and thorough plowing that covers the stubble, and by wise disposal of the stalks as roughage.

As the time of the year when corn borer clean-up operations may be performed to best advantage is almost as important to farmers as is the amount of this work to

(*Continued on page* 1007)

Our International Payments

By GEORGE E. ANDERSON

The Turnover Last Year Was $18,200,000,000. Movements Indicated by the Principal Items Show Increased Net Export Trade, Increased American Wealth Accumulated Abroad. Expenditures of American Tourists Mount Up to $738,000,000.

THE review of "The Balance of International Payments of the United States in 1926," published by the Department of Commerce a year ago was the first adequate picture the people of the United States have ever had of their financial transactions with other peoples which, as stated in these columns at the time, largely constitute "a review of American national life, a record of the nation's social activities, a reflection of many national habits and customs and in some degree a measure of our international policies and politics."

The review of the balance of payments for 1927 just issued is by the same writer, Mr. R. E. Hall, assistant chief of the Finance and Investment Division of the Bureau of Foreign and Domestic Commerce of the Department of Commerce.

The review is not only highly interesting and instructive but it is also tremendously important. As Doctor Julius Klein, director of the Bureau of Foreign and Domestic Commerce, says in his introduction: "Our international turnover last year, as herein recorded, was approximately $18,200,000,000. . . . Last year we sold to customers abroad about $4,500,000,000 worth of commodities. The aggregate profit and the productive employment created by those sales are among the very bases of our national welfare. In accordance with sound business practice we should spare no pains in analyzing the means whereby our customers abroad acquired the exchange with which they paid us for their purchases."

Movements in Our Favor

IT is in keeping with general expectations perhaps that this year's review shows a considerable increase in the volume of transactions over those shown in the previous year and perhaps it is only logical that the chief, or at least the most striking, increases should be in those items which reflect the increasing activities of the American people along lines already clearly defined. The total exports of all items, visible and invisible, in 1927 amounted to $9,115,000,000, as compared with $8,713,000,000 in 1926, while the total of imports in 1927 amounted to $9,121,000,000 as compared with $8,899,000,000 in 1926. With the increased volume of transactions thus indicated there is also the assurance that on the whole the movements indicated by the principal items have been in favor of the United States in that they show increased net export trade, increased American wealth accumulated abroad, increased hold of American finance upon the finances of the world. The excess of exports of merchandise over imports in 1927 amounted to $680,000,000 as compared with $378,000,000 in 1926. The purchase of foreign securities publicly offered in the United States increased from $1,305,000,000 to $1,558,000,000, our net "export of capital" in 1927 amounting to $671,000,000 as compared with $604,000,000 in 1926. The expenditures of American tourists abroad, including those in Canada and Mexico, increased from $709,000,000 to $770,000,000. Interest received by Americans from long term investments abroad increased from $678,000,000 to $738,000,000. Immigrant remittances decreased from $253,000,000 to $241,000,000. Charitable and missionary expenditures decreased from $46,000,000 to $43,000,000.

While most of the items in the various schedules show increasing American financial strength, indications of increasing strength and greater financial stability abroad are not lacking. Aside from the shipments of gold abroad which commenced in the closing months of 1927 and which have been so marked a feature of the nation's international financial transactions so far during the current year, an examination of the detailed items in the movement of private long term capital indicates an increasing power in other nations to participate in American financing.

Net Increase in Our Investments Abroad

WHILE, as above indicated, the public offerings of foreign securities in the United States in 1927 amounted to $1,558,000,000 (at par value) as compared with $1,305,000,000 in 1926—an increase of $253,000,000—the net increase in American investments abroad was only $67,000,000. Sinking fund payments by foreigners increased by $32,000,000 between the two years. Foreign stocks and bonds resold to foreigners increased from $286,000,000 to $412,000,000—a net loss of $126,000,000. American stocks and bonds sold to foreigners increased from $636,000,000 to $891,000,000—an increase of $255,000,000. American stocks and bonds bought back from foreigners increased from $509,000,000 to $639,000,000—an increase of $130,000,000.

In this ebb and flow of securities between countries the increasing disposition of the people of other countries to invest in the United States is quite manifest. Canada bought considerably more of these American securities than all the rest of the world combined. The total aggregate market value of American securities held by American banks for account of foreigners as reported by banks in response to a questionnaire is $2,212,000,000. This figure is "the largest figure on foreign investments in this country obtained in recent years except by estimate" and is particularly interesting and important as a basis for the Government's estimate of the total value of foreign investments in the United States. Such security holdings reported by the same banks at the close of 1926 amounted to $1,796,000,000.

The review indicates that there is probably an American equity in a considerable portion of the American securities held in the United States for account of foreigners. This also may be true of foreign securities held abroad for account of American investors. On the whole these equities are not sufficiently large to materially affect the proportionate investments of American and foreign capital. The review also shows that in the ceaseless movement of securities to and from the United States foreigners supplied our money market in 1927 with $503,000,000 to offset our enormous gross "export of capital," this sum being almost equally divided between new investments in American securities and the repurchase of foreign securities. American securities have been placed in large amounts, particularly in Great Britain, The Netherlands, and Canada, with France, Germany, Switzerland, and Sweden also heavy buyers.

Banking Accounts Uncertain

THROUGH errors and misunderstanding it has been found impossible to include in this year's review a statement of international banking accounts. In the review for 1926 an item of $359,000,000 was reported as net deposits in American banks or short term funds owned by foreigners. The returns from the questionnaire showed an increase of over a billion dollars in such American debits, an increase far too great to be reconciled with known facts, particularly the considerable net export of gold in the closing months of 1927 and the known transfer of short term funds to Europe when there was a shortage of money there and rather unusual easy money conditions in the United States. This item in the annual review is of such importance that it is to be hoped that international bankers in this country will be able to give more effective cooperation with the government in this matter in the future. Statistics covering the import and export of American currency

(*Continued on page* 1015)

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Diary of a Trust Officer

All the Promoter Wanted Was the Use of Our Name. With that He Thought He Could Make a Fortune Out of Wildcat Acreage. Two Contrasting Pictures of Wards. In One Parental Foresight; in the Other Neglect. Husband Manages Estate.

May 1

A REPLICA of "J. Rufus Wallingford" breezed into our office this morning. He had taken options on a large block of wildcat acreage and he proposed to organize a company to develop it. He was not going to incorporate his company, but he was going to develop it on the "unit-plan" basis; that is—he desired to transfer these leases to his trustee and have the trustee issue units to be sold to the public.

Just how many units he intended to issue was uncertain. According to his plans it might have run into several millions before he got through with it. All he wanted us to do was to lend him our name as trustee of this proposition. He frankly admitted that if we would consent to act as trustee that he would have no trouble at all in putting the proposition over to the public. The breezy visitor had unbounded faith in the idea that oceans of oil were underlying his oil leases and that all he had to do was to get the money from the public to drill these wells deep enough and tap this unlimited supply, thereby making everyone rich who invested in his proposition. In all my experience as a trust officer I have never seen anyone who seemed to have more confidence in a wildcat scheme than this well dressed, smooth-talking, suave young man seemed to have in the one he was promoting. It did not seem to dampen his spirits when we frankly told him that under no circumstances would we permit our name to be used in an enterprise of this kind, and that it would be business suicide for a responsible trust company to act as trustee in a proposition such as he presented. Undoubtedly he had presented this matter to other companies and had been turned down, and no doubt he is still going. If some unsuspecting trust officer is not awake to his responsibilities this promoter will induce him to participate in an enterprise of this kind, and if he does, the Federal government and a flock of receivers will undoubtedly have a job on their hands.

Two Pictures

May 2

MRS. WALTERS passed on about ten years ago, leaving an estate in her own right of approximately $25,000. Little Billie was about eleven years old and Nancy Ann about eight when their mother died. Mrs. Walters, having acquired this estate through inheritance, provided that the entire estate should be held in trust for her two children until they became of age. Meanwhile the income was to accumulate and then it was to be paid to Billie and Nancy Ann, one-fifth every year, for a period of five years. Mr. Walters assumed the responsibility of the maintenance, education and care of the children during their minority. But financial reverses overtook the father about two years ago, and it became necessary for the trust company to finance Billie and Nancy Ann through the last two years of their college life. After they returned from school last year we began to make distribution to them. We received a letter from Nancy Ann this morning. She was bubbling over with enthusiasm about her past year's work, and was confiding her plans for the summer. She contemplates a trip to old Mexico for the purpose of study and recreation. Billie expects to improve his time by working—preferably in some outdoor activity and we are trying to assist him in finding employment that will be to his liking.

Without the trust fund established by their mother over ten years ago a college education for Billie and Nancy Ann would have been impossible and the other side of this picture was forceably called to our attention today. One of our wards, a girl about seventeen years, was left an orphan. Her parents had neglected to provide an educational fund for her. The father died when she was about 11 years old, and after his estate was closed there was less than $1,000 left to take care of this little girl. She has no relatives who are in a position to help her financially, and she has been having a hard struggle in making the grade, although some assistance has been given to her during this time. She just telephoned us that she had obtained a position that will pay her $5 a week, which will help to meet her expenses while she is attending a commercial college and preparing to earn her own living. We knew this father, and we know that he could have provided for this girl with a life insurance educational trust fund.

The Husband Managed

May 3

ABOUT two years ago Mrs. Bristow received her distributive portion of her father's estate, which amounted to something over $150,000. At that time she was unmarried—had always lived at home with her family, and had never had a care or responsibility in her life, but after receiving her inheritance she married.

Although the man she married never had been successful in his own endeavors, he immediately assumed the responsibility of managing his wife's property. She placed absolute confidence in his ability to manage her financial affairs successfully, and gave him practically unlimited authority. It soon developed that his judgment was bad, and some surviving members of the family even questioned his good faith and integrity. This naturally caused a family breach and for the greater part of the past year Mrs. Bristow and her mother and sisters have hardly been on speaking terms, much less having cordial family relationships.

After her marriage Mrs. Bristow practically discontinued the services of the trust company and rarely consulted us regarding any of her business activities, relying solely and implicitly upon her husband's judgment and advice. Recently she came to us and told us that because during the past two years her estate had decreased about $50,000, due to poor investments and other expenditures made on the advice of her husband, she had decided to protect the remainder of her inheritance by creating a trust for her own benefit. This she did by placing with the trust company all the remainder of her property amounting to approximately $100,000. Mrs. Bristow advised us that she had talked this matter over with her husband and had come to a definite understanding with him in regard to her property rights and that in the future her financial affairs would be handled through the trust company. In the talk we had with Mr. Bristow today we believe that he, too, is satisfied with this arrangement as he realizes the many mistakes that he has made, and is manifesting the proper spirit of cooperation with our organization.

She Refers Them To Us

May 4

WE have been handling Miss Sullivan's affairs for several years. A great portion of her life has been spent in the Government service at Washington. Partly through a lifetime of savings and partly through an inheritance that she received from some of her relatives she had accumulated considerable real estate holdings in our city. As the town grew larger these holdings became more valuable until today they are very valuable. On account of her advancing age—she is over seventy now—Miss Sullivan went to live with a sister. Before doing so, by a power of attorney, she constituted our company as her agent with full authority to handle her property. During the last few years she has been an invalid. One of our trust officers has visited her on different occasions in order to look after her welfare and to give her an accounting of her agency account.

On numerous occasions designing people have endeavored to inveigle Miss Sullivan into deals and contracts that would have involved her either in financial difficulties or losses, but she at all times uses our com-

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The National Debt and Federal Reserve Operations

By H. E. SARGENT

Washington Thinks That One of the Points of Chief Interest to Legislators Next Year Will Be the System's Ability to Curb Speculative Trends Promptly. Do the Policies of the Treasury Department and the Reserve System Conflict? Wash Sales Effect.

RECORD breaking activity on the New York Stock Exchange has challenged the effectiveness of the Federal Reserve machinery for controlling the credit situation of the country. The time is soon coming when the effectiveness of Federal Reserve credit control practices will be weighed in the balance against their accomplishments.

No matter what the future cost of stock market activity may be, or the trend of money and credit conditions during the summer, the fact remains that the Federal Reserve System tried for more than six months to put a check upon the volume of market operations, and that much time had elapsed before any signs of appreciably tighter money became evident. Next year the big business legislation before Congress will be the revision, or rather the modernization, of the Federal Reserve Act. The measure of the Federal Reserve System's ability to cope with periods of widespread stock market operations, or, to put it bluntly, to curb speculative trends will be one of the points of chief interest to the Federal legislators.

Congress May Decide

SO far the Federal Reserve System has insisted upon its ability to control, at least temporarily, credit conditions throughout the country. Proposals in Congress for new legislation designed to provide arbitrary checks against the use of Federal Reserve credit for speculative purposes, that is, for financing stock market activities have been opposed by the Federal Reserve authorities. By next winter, presumably, conditions in the money market will have changed from those obtaining during recent months. But the big fact for Congress to decide will be whether the Federal Reserve System can exercise a control over the volume of credit going into the stock market with sufficient promptness to render restrictive legislation unnecessary.

Last summer cheap money in the United States was brought about with very little difficulty. To aid foreign central banks of issue over an embarrassing period, the Federal Reserve banks in this country pushed down their discount rates. Cheap money followed immediately, but not only were the international exchanges relieved of pressure, but the supply of money available for the call market became more and more abundant. Consequently, the volume of brokers' loans outstanding began to grow week by week until the unprecedented total of $4,500,000 was reached in May.

Meanwhile, the Federal Reserve System since November had been attempting to reverse the process of the previous summer and bring about tighter money in this country. During the summer the Federal Reserve banks had been offsetting gold exports by the purchase of government securities in the open market, with the result that to the extent that gold left the country, or was earmarked, which is the same thing, its equivalent in funds was replaced in the market. Beginning with November, this practice of offsetting the outward gold movement was abandoned. In January the first upward revision of discount rates was undertaken. By the end of May a second upward adjustment of discount rates to a new level of 4½ per cent had been almost completed. Starting around the new year, the Federal Reserve System began the sale of government securities which reduced its total holdings by some $400,000,000, this policy having the purpose of reducing the visible supply of funds in the open market by that amount.

How Long Should It Take?

THUS, something like $250,000,000 of gold exports were allowed to leave the country without being offset. The open market operations of the Federal Reserve System were utilized to their fullest extent, and discount rates were twice increased before there were any signs of actually tighter money. Meanwhile the stock market had steadily expanded to higher and higher levels, while brokers' loans had mounted unchecked. Regardless of the outcome of the situation, the important question is whether the Federal Reserve System should be unable to control credit conditions for as long as six months, or, to put it another way, whether it should take the system half a year to make any impression upon the money market.

When this problem is attacked seriously by Congress there will come to light an apparent conflict between Treasury policies on the one hand and Federal Reserve practices on the other. There is a serious question as to whether the policy of the Treasury calling for large annual reductions in the public debt does not render impotent the power of the Federal Reserve System over the money market through its open market machinery.

Looking at this situation in its simplest form may be somewhat misleading as to the actual effect of Treasury policies upon Federal Reserve practices, but the idea is easiest conveyed in this fashion. For the past eight years the Treasury has been reducing the public debt on the average of nearly one billion dollars a year. With the utilization of the entire surplus in the latest tax legislation of Congress, the theory is that there will no longer be heavy annual surpluses to swell the amount of debt reduction. Nevertheless, because of the steady increase in the sinking fund, the average expenditures for public debt retirement out of fixed charges over the next few years will be something like $700,000,000.

Therefore, each year there will be about $700,000,000 of funds released which must find some place of investment. When the Federal Reserve System is engaged through its open market operations in easing money conditions, public debt retirement offers no obstacle. But when the reserve system seeks to tighten money by the sale of securities, it would seem that its operations would be offset by the $700,000,000 of debt retirement made over the course of a year by the Treasury. It would seem that while the Reserve system, on the one hand, was trying to take money out of the market, the Treasury, on the other, was adding to the supply of available funds.

Is Public Debt Retirement a Wash Transaction?

JUST how much the debt retirement policy of the Treasury is a factor in the abundance of money in this country is a debatable point. To what extent it interferes with open market operations of the Federal Reserve System is a highly controversial point. Some assert that since there are no longer any substantial number of Liberty Bond holders, nor any longer any small taxpayers, that therefore, when the Treasury retires public debt, it merely turns back to the large Liberty Bond holders the money it took from them in taxes on the higher incomes. Under this theory public debt retirement is a wash transaction so far as any effect upon credit conditions are concerned.

But it is wholly inexact to say that only the large incomes now pay taxes. There is still an army of what are at least smaller taxpayers. To the extent that money collected as income taxes from these taxpay-

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There is *Profit* and *Protection* in a Thorough Classification of "*Local Loans* and *Discounts*"

Government | *Municipal* | *Farm Loan* | BONDS TO FIT THE INVESTOR | *Public Utility* | *Real Estate* | *Industrial*

LOCAL loans, representing the bank's chief service to its community, and in most cases its chief earning assets, need the balance of a flexible secondary reserve if both service and earning power are to be safeguarded. If funds lie idle, waiting for local demands, or if credit is extended beyond normal limits or concentrated in loans of any one type or size, the bank either suffers loss of profit or endangers its position.

Between assets too liquid or else "frozen," there is a happy medium in a well constructed bond account. An analysis of local loans and discounts will reveal much valuable data upon which to establish a sound loaning policy and a sound investment policy.

For instance, what is the total amount of local loans outstanding? In what amounts are the greatest number found? What size is the average loan? Is there marked fluctuation in borrowing demands? If local loans show peaks or depressions at regular seasons, bonds selected for timely maturities and marketability will provide a proper balance. Should loans be limited largely to certain industries or activity, flexibility and strength will be added to the reserve structure by selecting bonds from different and diverse fields.

If you care to discuss with us the problem presented by your secondary reserve, we shall be glad to help you make a thorough analysis and to give you, without obligation, the benefit of our experience.

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Investing the Other 25 Billions

By HARLAND H. ALLEN

Nearly Half of the $50,000,000,000 Deposited in the Nation's Banks Is Available for Investment on a Safe, Liquid and Paying Basis. Part Being Used Indirectly for Margin Speculation, an Unwise Practice. Conservative Corporation Banks a Solution.

IN round numbers $50,000,000,000 is the grand total of individual deposits now in banks of the United States. Something over half of these deposits—in recent years it has been an ever diminishing half—is loaned back to customers under the general classification of "commercial loans and discounts."

The making of these short term loans to commerce and industry has long been regarded as a dominant characteristic of modern banking. It has constituted the principal source of banking profits. The American commercial bank has been, in fact, for many years, essentially a financial clearinghouse where members of the business community kept their working capital for checking purposes, deposited surplus funds as they had them, and borrowed the funds of others through the bank when they were short.

By and large, credit needs of American business communities long tended to balance the money surpluses, thus furnishing a local market for the bankers through which they could keep the greater part of their deposited moneys earning interest. The legal reserves were, of course, largely invested in government bonds.

A Change Under Way

BUT the situation has been undergoing a radical change recently. Industry has grown up and new credit habits have developed. Large industrial and commercial concerns with long records of successful operation have learned that they can now borrow on their own names and credit without the intermediacy of commercial bankers. Increasing numbers of the business community—the bank's former clients for credit—have learned to sell their long term securities direct to the people.

And still more lately, as general business conditions have become increasingly stabilized, these concerns have realized that they can better foresee what were formerly their short-term credit needs, and so they arrange to take care of much of these needs on a long term basis. The result, of course, is that they borrow relatively less and less money at the commercial bank.

This development alone would tend to make a problem for the banks in placing a substantial part of their deposited moneys. But, as if to complicate the matter further just now, the long campaigns which have been carried on to educate the general public in saving money and keeping it on time deposit have begun to bear fruit in large measure. During these same years the banks have also succeeded in teaching most of the community to keep current funds in the bank on a checking basis. Hence money is now flowing into banks in volume such as never before and this just at a time when commercial banks are beginning to lose much of their market for short term credit.

Many Billions Idle

WITH more than $50,000,000,000 on deposit in United States banks there is now $14,000,000,000 which is not loaned at all. Add to this the $4,000,000,000 which has lately been the volume of "loans to brokers" through New York "Member Banks" alone, and the estimated $6,000,000,000 which, as "loans on securities" in various parts of the country, constitutes another vast item of essentially non-commercial credits of the commercial banking system, and the total reaches to approximately one-half of the gross bank deposits of the country.

These figures are cited to show that not only the excess of deposits above loans, but the increasing percentage of actual bank loans which find their way into speculation and the consequent over-inflation of capital values constitute an increasingly pressing problem of American commercial banking: What shall be done with the other half of $50,000,000,000 of deposits?

We know, of course, that there has been a great deal of hesitancy among conservative and socially responsible bankers about extending this phase of their business so radically. The long continued bull stock market has been disturbing the complacency of American bankers for many months. It has more recently become a matter of serious concern to business men in general. The Federal Reserve Board has been contending with it. It has ordered government securities sold into the money market in large volume on several occasions, but without much effect. Rediscount rates at the Federal Reserve banks have been raised in an obvious effort to curtail the supply of money available for speculation and to put the speculative market on a more rational basis—a basis more consistent with business conditions as they are. But, still the speculative market is far from calm.

However, there are at least two important rational elements in the present bull market. One is that many of the industrial security leaders in that market—through consolidations and other recently gained advantages and prospects—have taken on great new possibilities. There is rationality in feeling bullish about such concerns, and while such developments are going on. On the other hand, so long as the banks of the country are willing and able to furnish the money for margin speculation in such a market it seems rational to the speculative mind to take advantage of it. In fact, that there is a much closer relationship between the long rise we have experienced in the speculative market and in the volume of bank loans available for speculation purposes than has heretofore been conceded.

If one charts the rise in the stock market prices over the last four or five years, and with it the rise in volume of brokers' loans from banks of the country, a striking parallel can be seen.

Good Judgment and Facts

HOWEVER, is it not to be expected that the stock market operators will continue to bull the market as long as there is plenty of money to do it with, and optimism prevails regarding leading industrial concerns whose securities are listed? But are we also to assume that banks will continue to furnish this money on call as long as their volume of deposits exceeds the local demand for short term commercial loans?

Take this last question apart from the present situation and almost anyone who is experienced with the traditional conservatism of American banking would answer, "No." But the facts of recent financial history answer otherwise.

It is reassuring, however, to discover that there is a trend, in one important banking section, against further credit expansion of this sort. Analyze the loans to brokers made through New York during the last four years and you will find that although the grand total shoots up in a most disconcerting way, the loans made by New York banks on their own account did not rise substantially through all that period, until late in 1927, and they are now headed downward again. Clearly, then, the primary source for the immense expansion in brokers' loans is now, and has been, from correspondent banks out over the country—banks which are less conversant with the speculative facts of the situation.

We have no assurance whether this changed attitude on the part of the New York banks in loaning their own funds is chiefly caused by timidity regarding the inflation in present security prices, or if it grows out of a more positive program embracing some new policy in bank reserves. A close study of this brokers' loan situation might prove very enlightening to the banking system outside of New York. It might effect a very radical retrenchment in the volume of funds which are being dispatched to the speculative market.

This should be done, and if the methods

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What Chicago Learned from Its Trade Census

BY CLARK R. PACE

One Retail Establishment to Every Seventy-Four Persons. 9525 Stores Have Annual Gross Sales of Less Than $5,000. The Average Annual Sales Per Employee in Contrast With the Average Salary. Rate of Turnover. Five Billions in Wholesale Trade.

THE census of the wholesale and retail trade of Chicago has placed at the disposal of bankers new and valuable credit information. In the past investigation and information has largely centered about the man and the business; now the census throws light on the field and the chance the business has in any particular field.

The outcome of this scrutiny of merchandising by bankers has already led to greater caution in making sizable loans to many of the classes of jobbers and merchants covered in the survey.

This statistical treatise was compiled by the United States Bureau of the Census with the cooperation of two committees of the Chicago Association of Commerce—those on Domestic and Foreign Commerce and on Business Research. Consequently the Census of Distribution has found a place not only with corporation executives and students of costs in relation to sales, but with bankers and credit men throughout the Chicago district as well.

The revelation of the survey that has attracted most attention is that Chicago has one retail establishment to every seventy-four persons. This was regarded with concern until it was noted that the other cities that compiled similar studies at the time that Chicago's was being made, reported an even less favorable ratio.

Bankers, however, have been one jump ahead of the survey on that point. There has been a notable apathy on the part of the mortgage divisions of banks, and particularly the larger institutions, toward loans on one-story store buildings.

Too Many Retail Stores

THE reaction of the heads of most such departments toward such a loan is very probably discouraging to many enterprising builders. In most instances the answer to a request for this type of credit would be: "There already are too many such structures in Chicago and we hardly care to encourage further building of that character."

This conclusion in the past has been based largely on experience with such loans but it now is verified in detailed and carefully compiled statistics. Not only are retail stores too numerous but, as might be expected from that fact, they are also doing a very small business in a surprising number of instances. Of the 41,224 retail establishments covered by the report, 9525 have an annual gross of less than $5,000 and an additional 6044 fall below the $10,000 mark.

If each of the seventy-four persons patronized his community stores, the yearly income of the smaller establishments would be materially improved but the number of shops that have a small turnover bears witness to the extent to which the department stores cut down the average. The result is that there is little in the way of profit left over for the store owner when the year is out, especially if he has salaries to meet in addition to inventory costs and rent. That is the secret of the poor loan value of one-story store buildings.

Devised as it is, to uncover both the alarming and satisfactory features of the merchandising situation, the census throws light on many situations. There is the relation of salaries to sales.

This is primarily of interest to the retailer and was not designed to meet a banking need. Nevertheless, if a retailer finds that too great a proportion of his gross income is eaten up in salaries paid to salesmen, the banker is now provided with the same information upon which to base his conclusion on any given type of store as a credit risk.

For example, the average annual sales per employee in the merchandising of foods is $6,860. Against that figure is an average salary per employee of $1,171 or 14 per cent of the gross business done by each individual over the course of a year. It may then be logical to assume that these average figures represent a sound situation and any food store measuring up to that requirement may reasonably be expected to meet its obligations. On the other hand, if the ratios seem to fall below the mean figures, further information on the account before a loan is made would not be amiss.

But to make the problem more simple, the census divides this "food" classification into nine subdivisions, including bakeries, cigars and tobacco, confectionery, dairy and poultry products, fruits and vegetables, groceries and delicatessen, meats and poultry, fish and other fresh sea foods, and restaurants.

High Cost of Merchandising Staples

SURPRISING as it may seem, some of the most staple foods, such as bakery and dairy products, are merchandised at such a high expense in Chicago as to make loans to bakeries and dairies a subject worthy of most careful consideration. On both milk and bread the costs involved in the sale of the products comes to approximately 50 per cent of the selling price.

This has come as an even greater shock to those who regard merchandising of milk and bread as a business to which profits should accrue most naturally and readily, especially as these products are handled to a large extent by big units which might be expected to keep costs, and particularly sales costs, down to a reasonable figure.

This has caused more than one bank to scrutinize carefully its loans to such concerns. It also has provided a valid explanation to some otherwise rather inexplicable failures in both fields in recent months.

Another set of figures, of vital importance in any line of business, which is made public in the survey is that on inventory turnover. Here again, as in the case of total sales and volume per employee, the statistics are compiled for various groups such as foods and then subdivided to give insight into the many classifications doing business under the twenty-two general headings.

From these data on inventory turnover may be drawn a few kinder words for the bakery products and dairy lines which suffer from the comparison based on sales costs. It will be found that the most rapid turnover for any type of merchandise included in the list is in the dairy products line. Here the average is 126.5 times a year. The only other item that even approaches that figure is ice with an inventory turnover 109.4 times a year. The bakeries turnover average 25.6 times.

Yet these inventory figures do not carry sufficient weight to offset the abnormal sales expense in these lines. The turnover is rapid because of the nature of the business. Milk sales are naturally a once a day business with a new stock of merchandise on hand every morning. The turnover is only reduced from 365 times a year by the fact that other dairy products enter into the figures which move more slowly.

Similarly, bakery products are sold in a relatively short time or are wasted. Consideration of the inventory turnover, for these reasons, has been of greater aid in determining the efficiency of those retailers which carry a large stock of non-perishable goods on hand and either prosper or are

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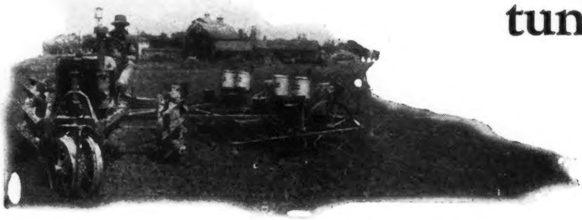
Mr. TOMBAUGH, veteran Illinois banker, recognizes the essential nature of farm power and equipment and gives it every opportunity to function in his community.



HERE the new row-crop general-purpose tractor, the FARMALL, is planting 4 rows of corn at the rate of 60 acres in a day. Later it will cultivate 4 rows, cleaning 35 acres a day in young corn and over 50 acres in later cultivations. (These are 8-hr. days). From plowing to belt work, its fast service benefits the farmer. Farmall has made true horseless farming possible on any farm.

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INTERNATIONAL Harvester manufactures about 60 lines of farm equipment, including tractors; plows, tillage and seeding machines; grain, hay and corn machines; motor trucks; cream separators; manure spreaders; wagons and feed grinders. All are essential lines, all contribute to the improvement of farming, saving labor and drudgery, cutting production costs, building yields and adding to the efficiency and the profit of farming. The McCormick-Deering dealers in 15,000 communities sell the machines that earn the wherewithal to buy all other commodities, from shoes to automobiles.

"I am impressed by the strong and simple slogan of the National Association of the Farm Equipment Manufacturers: 'Good Equipment Makes a Good Farmer Better.' My experience as a farmer and as an officer of farm organizations, and my years of contact with those who have done so much to develop this rich agricultural community, have clearly demonstrated to me how feeble and unavailing are man's efforts to wrest the forces of nature to his own benefit until he makes intelligent use of good machinery. The record of the wonderful accomplishment of American agriculture during the past quarter of a century is the record of the development of farm machinery in the saving of time and labor, and in the growing, harvesting, and marketing of farm products. In our bank we stand ready at all times to help any man whose reasonable needs in power and equipment are cramped by want of ready cash."

C. R. TOMBAUGH, *President*
National Bank of Pontiac
Pontiac, Illinois

INTERNATIONAL HARVESTER COMPANY
606 So. Michigan Ave. OF AMERICA (*Incorporated*) Chicago, Illinois

The McCormick-Deering Harvester-Thresher, shown here with the 15-30 Tractor, is doing wonders in the saving of labor and time. Savings of 20 cents per bushel are being noted by owners.

First Regional Clearing House a Real Success

By DAN V. STEPHENS
President, Fremont State Bank, Fremont, Neb.

Nebraska Plan of Assigning a State Examiner to a Certain District With an Association Handling Problems He Finds Is Resulting in Saner and Safer Banking. Interest Rates Are Stabilized and Public Is Protected Against Unfair Practices.

STUDENTS of banking have generally agreed upon a few fundamentals in the way of legal machinery necessary in the successful conduct of the business. Two of these requirements are outstanding. For example, since banking is a quasi-public business, it is essential to the public welfare that the authority to engage in it should be limited to the number of banks necessary to do the business of any given community, and that the character and ability of those authorized to engage in banking be beyond question. The second essential principle involved is the supervision and examination of the banks after they have been constituted. If these two principles are applied by an intelligent authority, the difficulties in the way of successful banking can be removed easily.

The people are not concerned so much about the corner grocery store. It can come and go according to the law of the survival of the fittest. But not so with the bank. A solvent bank is vital to the peace and prosperity of the people. It must be as dependable as the post office, or the government itself. It cannot be subjected to ruthless competition for the plain reason that failure spells disaster to its patrons and a great disturbance to the general welfare.

In the last seven years more than 10 per cent of the banking institutions of the country have failed, and they have failed primarily because of the violation of the two fundamental principles laid down as essential to the successful conduct of the business. There would have been practically no failures had the number of banks been restricted to the needs of the people and had the institutions in operation been adequately and properly supervised.

Too Many Banks

CONDITIONS that exist today throughout most of the states prove that there are too many banks, with correspondingly small profits—profits not adequate to pay a return on the capital and keep the banks clean and therefore solvent. Conditions in many states of the Union, where there has been a bank for every 1200 or 1500 people, causing fierce competition and encouraging practices that are not safe and sane, have brought about practically all of the bank failures.

We have undertaken to remedy this situation in Nebraska by taking what we believe is a preliminary step in the solution of the problem by organizing the First Nebraska Regional Clearing House Association. The theory upon which we are operating is this: We had tried many sorts of legislation looking to the perfection of the banking system, but, as a rule, the bankers themselves had little or nothing to do with the experiments tried. Generally speaking, bankers refuse to take any forward step to improve conditions lest they make them worse, so the improvement is attempted by people outside of the banking business, who know very little about it, and sometimes these alleged improvements become a menace to the prosperity of the country.

The supervision of banks before the creation of the clearing house was exercised entirely, of course, by the state and the nation. The idea of self-examination of banks is only a recent one, comparatively speaking, and has been inaugurated by clearing house associations in only about thirty-five American cities. There are some 400 or more clearing house associations in the country, but only thirty-five have reached the point where they feel that state and national examinations are not adequate and have established special examiners for themselves. This is a forward step and shows that the bankers in these cities at least are not deceiving themselves as to the necessary practices if their banks are to be kept uniformly solvent.

Nebraska's New Idea

IN this self-examination of banks, as practised in clearing house cities such as Chicago, no depositor has lost a dollar in a clearing house bank in the last quarter of a century. This record is most complimentary and leads to the conclusion that the regional clearing house association, if it did nothing more than to follow the Chicago plan, would be a step forward; but the regional clearing house association plan, as now proposed by the Nebraska organization, is a brand-new application of the clearing house principle which makes it adaptable to all the states of the Union and the realization of complete success a reasonable possibility.

The Nebraska plan contemplates the use of the regular state and national examiners, which should be adequate and which should obtain exactly the same results as a special examiner if the same principle and conditions are applied to their work.

By the use of the state and national examiners, and by the application of this principle by the state and national banking departments, the system can be made uniform throughout the United States without additional legislation. All that is required, in fact, is a change of the viewpoints of the various banking commissioners and the comptroller of the currency. If they can be convinced of the soundness of the proposal, the whole scheme can be put in operation without great difficulty or loss of time.

Why is the special examiner in the Chicago Clearing House Association more effective than the regular legally constituted examiner? The answer is simple. He is more effective because he is allotted to a specific territory and assigned a specific duty of examining a certain group of banks, and he is made responsible to the Chicago Clearing House Association for the result of his work. In other words, the special examiner becomes a permanent personage of importance in a community, and is charged with a great responsibility.

The result of this is to magnify, if anything, the importance of his work in his own mind, and, at the same time, the permanency of his employment enables him to become extraordinarily proficient through the knowledge that he gleans of the business of the community, the character of the risks, that the banks assume and the nature of the securities that they carry. Therefore, if the permanency of the position of the examiner on a specific location brings these results, then why does not the state and the nation apply this same principle in the conduct of the business of examining and supervising banks?

If the state will locate each of its examiners in a special territory assigned to him with a view of having him supported by a voluntary clearing house association, why could not the same results be obtained through the regular official channels that are now being obtained by the thirty-five cities that have special examiners through local clearing house associations? We see no reason whatever why this cannot be done, and it has a very distinctive advantage for country districts over the present city clear-

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Tide of Farm Tenancy Runs High

By CHARLES L. STEWART
Chief of Agricultural Economics, University of Illinois

Virtually Half of the Land in Harvested Crops is Operated By Persons Who Rent. Most of the Woodland and Pasture Acreage in Hands of Owners. Situation is not a Result of Agrarian Crisis Nor is it Affected by the Depression. No Cause for Alarm Seen.

The Rented West

THE great percentage of farm lands in harvested crops operated by tenants is in the Middle West and Southwest, Texas leading the states with 16,000,000 leased acres under plow. In the East, the renter never had made much headway, and even in the cotton states tenancy has not thrived as it has in the corn and wheat belt. It has expanded its margin the greatest in the newest farming regions of the country.

IS tenancy fading out of the American farm picture? Or, are forces gathering for a land problem that may some day cause surplus control and some other problems to be simple in comparison?

Certainly the international agrarian crisis has not been sparing of countries in which large proportions of farms are operated by tenants nor in this country has the crisis been less severe in the areas where tenant operation is prevalent. It is not tenant farming, however, which has caused the crisis, nor has the crisis apparently had much effect upon the extent of tenant farming. Tenancy in the United States has long been a characteristic of the production of certain crops, however, and these crops have taken the brunt of economic adversity in a marked degree.

The reports of the 1925 census, now appearing, show for the first time how our land in harvested crops is divided between owners, tenants and managers. The results are little short of sensational.

Practically half of the farm land in harvested crops in 1924 was operated by persons who rented it from others. Disregarding the land in farms operated by salaried managers and part owners, and counting only the land in farms of so-called full owners and full tenants, including croppers in the South, the proportion of harvested crop land operated under lease was 50.2 per cent. By the same token, the full owners operated 69.2 per cent of the farm land from which no crops were harvested.

Pasture and Woodlands

ABOUT three-fourths of the farm land from which no crops were harvested in 1924 was pasture land, the balance being divided between farm woodland not used for pasture, land on which crops had failed or which had lain idle or fallow, and a considerable amount of other land used for buildings, roadsides, and other miscellaneous purposes. Briefly, then, the nation's farm pasture land and farm woodland is found mainly in farms operated by owners. Operating owners have retained their hold on land of this description, but have relaxed their hold upon farm land devoted to harvested crops.

The extent of the relaxation differs, to be sure, between the various parts of the country. The amount of harvested crop land in the hands of tenants in 1924 was largest in Texas, nearly 16,000,000 acres. Then in order came Iowa, nearly 11,000,000 acres; Illinois, over 10,000,000 acres; Kansas, nearly 10,000,000 acres; Nebraska, nearly 9,000,000 acres; North Dakota, nearly 7,000,000 acres; South Dakota and Minnesota, over 6,000,000 acres. These eight states had over half of the harvested crop land operated by full tenants in the entire country. It will be observed that Texas is the only state prominent in the production of cotton that is included in these eight states. Measured from the standpoint of areas of crop land, tenancy bulks large in the corn and wheat belts.

When the eight states are selected which show highest proportions of harvested crop land of "full" tenure in the hands of tenants, several of the same state names appear. Leading them all in this comparison is Mississippi, 66 per cent. Then follow Texas and Oklahoma, 65 per cent; Alabama, South Dakota and South Carolina, 64 per cent; Illinois, Georgia and Kansas, 63 per cent, and Nebraska, 61 per cent. The presence of six cotton states is to be noted among the ten states leading in this comparison. Clearly, crop land tenancy centers in the regions of staple crops, cotton and tobacco, corn and wheat.

An Illinois County

IN some individual counties, the proporportion of such harvested crop land that is under lease is very high. Logan County, Illinois, 83 per cent tenant operated, is one example in the corn belt. In this county, near the center of the state, the lands in the estate founded long ago by the Irish Lord Scully have a place of prominence. Near Logan County are thirteen other counties in which 75 per cent or more of the crop land, as described, was operated by tenants.

It is possible, of course, to find areas in even so notable a tenant state as Illinois, in which tenancy is virtually absent. In two counties in the Ozark Hill region of the state only 23 per cent of the crop land, as described, was operated by tenants.

Whole states having small proportions of crop land tenancy, percentages based as before on full-tenure land, are Nevada, 8; Vermont, 14; Rhode Island and Utah, 15; West Virginia, 17; New York, 21; Wisconsin, 22, and Michigan 23. All of the other states showed percentages above 25. These eight states contain less than one-tenth of the full-tenure crop land in the United States. Where little tenancy is, there is little crop land also.

The conditions revealed by the 1925 census are not believed to be a result of a sudden change. Since about 1900 a shift has been taking place almost unobserved under the surface of the regular census statistics. From 1880 to 1900 the percentage of all farms that were tenant farms increased notably in the staple crop regions. From 1900 on, however, without changing much in relative numbers, owners giving way to tenants only very gradually, tenancy showed a rather marked increase when allowance was made for the size of farms and for the value of the farm real estate. A great deal of importance has come also to be attached to the renting of land by part owners. In average cases part owners have operated as much land of their own as did full-owner operators, and rented from others as much as did full tenants. Part owners had been counted the same as full owners before 1900.

Part Owners in the West

UNFORTUNATELY, census publications have not shown crop land acreage by tenure until now. Part owners are especially prominent in Western states where pasture operations prevail, but nevertheless

(*Continued on page* 1004)

PEOPLES WAYNE COUNTY BANK

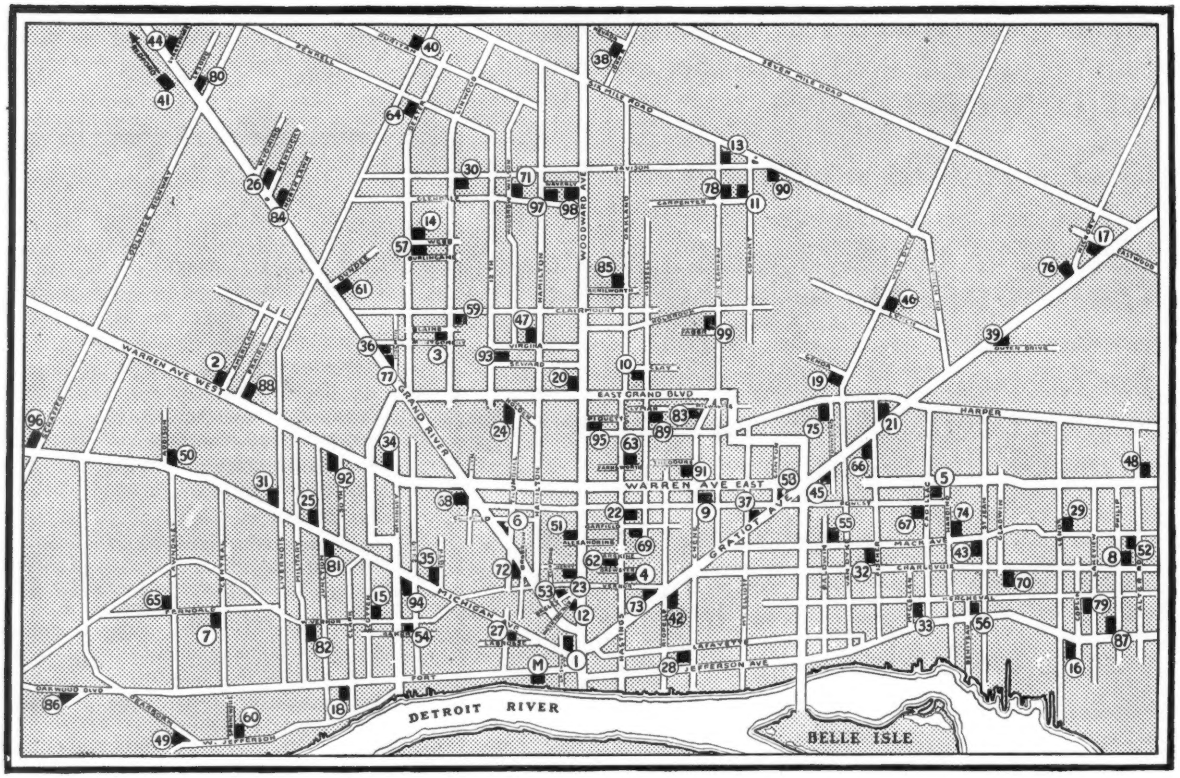
a consolidation of

The Peoples State Bank

Wayne County & Home Savings Bank

(Effected February 15th, 1928)

100 Banking Offices in Detroit



MAP OF GREATER DETROIT SHOWING PEOPLES WAYNE COUNTY BANK OFFICES

Capital Stock $11,000,000.00

Surplus Fund $22,000,000.00

Resources $300,000,000.00

(257)

PEOPLES WAYNE COUNTY BANK

Why Railroad Consolidation Lags

By CHARLES F. SPEARE

Interstate Commerce Attitude One of Confusion and Bewilderment Over Problems Presented. Public Indifferent Except Where Its Interest Is Affected. Profitableness of Consolidation In Doubt. Immediate Mergers Unlikely. Estimated Savings.

PROGRESS in the way of railroad consolidation is being made with irritating slowness. Reasons for this are the following:

Unwillingness by the Interstate Commerce Commission to permit mergers that it does not conceive to be "in the public interest" and which are confused with so-called "stock jobbing" deals.

The difficulty in agreement between railroad executives who must give and take in the process of establishing unified lines in territory of intense traffic competition.

The attitude of the "short lines" supported by Interstate Commerce Commission decisions and that of minority stockholders.

The indifference of the general public to consolidations per se and the active antagonism of communities, commercial organizations and certain groups of shippers to those mergers that affect local conditions or are believed to be inimical to private interests.

Taking the last of these objections first, we find that railroad consolidation has a small place in the mind of the average citizen. It is a subject to which he gives little thought or study. Perhaps he has grown tired of hearing it discussed for so long and of realizing so little from it in practical results. It has been urged vigorously for the past eight years. There have been paragraphs about it in every presidential message. Stocks have been boosted on the basis of it. Dozens of conferences have been held to talk it over and decide on terms. A majority of the decisions of the Interstate Commerce Commission have been against specific applications of it. A thing constantly agitated but never reaching a conclusion finally sinks below the horizon of public interest.

Sectional Opposition

WHILE there is a lack of positiveness on the public's part to the merit of railroad consolidation, there is a determined opposition to individual projects to merge roads in various sections of the country. This is due primarily to the effort at self-preservation. Consolidations create a disturbance in the fixed states of life of large bodies of employees. They directly upset the status of communities by taking away their general offices, their shops, their division headquarters, and they offend the local pride and prestige that has grown up on the foundations of these relationships. It seems to be much easier to arouse public sentiment that will keep railroads apart than to marshal favorable arguments for bringing them together.

No doubt there is an element of suspicion in the public mind concerning the purpose of consolidations. "Whom does it benefit so much as the bankers?" is a question frequently asked. "Is there anything to it except the desire of small groups of men to enrich themselves?" There have been instances in recent stock market history that might naturally provoke such inquiries. Then there is the further pertinent question: "How can the A. & B. Railroad afford to pay $—— a share for the stock of the C. & D. and expect through consolidation to economize sufficiently to pay the increased carrying charges?"

There are scores of small railroad lines in the United States with a corporate identity, but serving little economic purpose in the business life of the country. They must have their fingers in the consolidation pie. There are other comparatively insignificant lines that exchange traffic with the stronger roads and demand a right to be considered when the unification scheme affects their territory. They have been upheld by commissions and courts. Then there are roads of moderate mileage and some good originating prospects, but with very poor credit, that would like to attach themselves to the strong systems in a lifetime relationship. This was, in fact, an underlying motive for the railroad consolidation law.

Cold Water on the Merger Plan

GETTING back to the attitude of the Interstate Commerce Commission to the consolidation question, one finds a series of decisions and intimations that throw cold water on the merger scheme as it has been conceived by students of transportation as well as by railroad executives who have been actively engaged for years in trying to bring about mergers in the trunk-line territory, in the Southwest and in the Northwest.

The commission has acted timidly and has appeared befuddled. There has been a surprising absence of unanimity of opinion on important questions. On the subject of mergers, one element in this body has apparently believed in them, but another has been wholly at variance with the idea. So far the objectors have carried more weight than the proponents of unification. There is some justification for their point of view, especially as it has dealt with the plan of the Chesapeake & Ohio and Nickel Plate interests to put together a system that is illogical, and in their objection to the original plan for merging the Kansas City Southern, Missouri-Kansas-Texas, and St. Louis-Southwestern. Here was a clear case of vesting too much authority and too high a proportion of financial responsibility on the weakest member of this group, although the one which was most directly representative of the promoting element.

The decisions of the commission respecting the proposed fifth system between New York and the Mississippi Valley may be regarded as technically unfair and unreasonable, but in view of the subsequent events and the obvious inability to establish an additional trunk line system, they are entitled to respect. Just what this body may do with the mass of testimony presented for and against the consolidation of the Great Northern and Northern Pacific lines, it would be presumptuous to say. Aside from those directly interested in advancing the cause of such a merger I have yet to hear from either business men, bankers, or unprejudiced railroad officials the statement that they expected the commission to approve of it. This in spite of the fact that it is the most natural, logical, untainted consolidation that could possibly be presented to the commission for its consideration. If there is anything at all in the consolidation principle, it should be here exemplified in economies of operation and in a minimum of disturbance to the territory affected. There is, however, no popular demand for it; instead a strongly vocal objection from the chief competitor of the Hill roads and its stimulated constituency. One has a feeling in reading the decisions of the Interstate Commerce Commission in merger cases that it is more affected by objections to than by affirmations of specific consolidation proposals.

Are Consolidations Profitable

ARE consolidations profitable? This is a question that cannot be answered arbitrarily. It no doubt enters into the sentiments of those who are compelled to deal with it in an official capacity, though it is not a vital factor except to stockholders. It is claimed, for instance, that a unification of the Great Northern and Northern Pacific roads would result in economies of $10,000,000 per annum. This should be worth while. Stockholders of both lines would profit proportionately. It is not so easy to establish the savings growing out of the bringing together of other systems that have been negotiating with each other for joint control and management but I understand that about $5,000,000 is the figure arrived at in the proposed Southwestern merger. Where this involves the purchase in the open market of stocks at prices not warranted by current income or earnings it would be difficult to justify the permanent carrying charges involved in a merger deal based on expected operating economies.

This feeling undoubtedly has been in the minds of the members of the Interstate Commerce Commission in rendering their

(Continued on page 999)

New Small Loan Plan Spreads

Decision of the National City Bank to Make Personal Loans Without Collateral to Salaried Persons Meets With Quick and Emphatic Response From the Public and Results in Other Large Banks Taking Similar Step. Further Details of the Plan Told.

THE announcement late last month by the National City Bank of New York of the establishment of a personal loan department to make loans without collateral to salaried men and women in amounts ranging from $50 to $1,000 at a discount of 6 per cent resulted in a similar step being taken by several other large banking institutions in New York and other cities.

It was hailed in the press as a notable move toward the eradication of the "loan shark" evil and resulted in a rush of prospective customers to the National City branch in the midtown section where it was inaugurated.

Further details of the National City plan, which was briefly mentioned in last month's number of the Journal, reveal that from borrowers, who qualify as depositors or prospective depositors in the compound interest department, the bank will require the signatures of two responsible co-makers on the note. The 6 per cent discount will constitute the only charge to the borrower, no service or investigation fee or charge of any kind being imposed in connection with the application for a loan or its arrangement. One year will be allowed for the repayment of a loan.

Rules for Deposits

TO place the borrower in a position to meet his obligation when due, the bank provides that deposits be made weekly, semi-monthly or monthly, in a compound interest account, in order to accumulate the required amount. These deposits will be made regularly similar to deposits in a Christmas Club account and interest will be paid on these deposits at the regular rate obtaining in the bank's compound interest department, 3 per cent per annum compounded monthly.

A typical example of the manner in which the personal loan plan operates is as follows: On a loan of $108, the bank's discount of 6 per cent amounts to $6.48, leaving $101.52 in cash. A deposit of $9 a month for twelve months in a compound interest account amounts to $108, sufficient to pay off the loan. Interest at the annual rate of 3 per cent compounded monthly on the $9 monthly deposits amounts to about $1.48 provided all deposits are made promptly. This interest accumulates and may be used either to reduce the amount required for the final deposit or to start building up a cash reserve or investment fund.

Characterizing the development as a logical step in the policy of the bank to enlarge the facilities which it offers to people of moderate means, Charles E. Mitchell, president of the National City Bank, said:

"In its desire to round out a comprehensive banking service to all classes and to make closer contact with the people of the City of New York, and specifically, those individuals who are minded to thrift, The National City Bank some six years ago opened at its 42nd Street and Madison Avenue branch a compound interest department where deposits of one dollar and upwards would be received with interest thereon compounded monthly.

175,000 Thrift Deposits

"THE ease of practice of thrift through this department, together with the introduction which it gave compound interest depositors to the checking, commercial, investment, trust and safety deposit division, were quickly recognized. The popularity of the service resulted in its extension to all our branches throughout the city. Our thrift depositors now number approximately 175,000 in New York City alone.

"Our contact with this great number of small depositors has brought us to an understanding of their problems, their periodic financial requirements, and a realization that to give to them the opportunity of safeguarding their savings by deposit without furnishing on the other hand a means by which they can, under necessity, borrow on reasonable terms, constitutes an unbalanced relationship and points to a lack of comprehensiveness in financial service.

"To provide this we have now inaugurated a plan for the extension of loan facilities to persons of moderate means who more or less constantly face the emergencies which cannot be met with funds accumulated out of their current income.

"Our contact with people of this class has given to us a confidence in the integrity and character of the average individual. While it is not our purpose to encourage anyone to borrow except under the stress of circumstances, we have faith that loans so made can and will be paid where incident thereto the spirit of thrift can be kept alive."

Loan Purposes Recognized

THE useful purposes for which application for personal loans will be considered have been listed by the National City Bank as follows:

Miscellaneous—Consolidating urgent debts, buying a bond, repaying a friend for loan, repaying unsatisfactory loan.

Family Needs—Paying educational fee, meeting insurance premium, providing emergency clothing, paying cost of sickness, paying funeral expenses.

Home Improvements—Remodeling house, improving sanitation, protecting property by painting, installing electricity, installing heating system.

Personal Emergencies—Clearing medical expenses, paying dental bills, meeting hospital charges, paying for operation.

Property Charges—Making up small balance of mortgage, meeting assessments for paving, etc., paying special or delinquent taxes.

By way of answering questions arising in the minds of prospective borrowers, the personal loan department notes among its requirements that the borrower has resided in New York for one year, is at least 21 years old, has been steadily employed at the same place for at least six months, and that present employment seems permanent, and further that he may not contract for other loans while the National City loan is running without first consulting with the bank.

Each Co-Maker Liable

EACH co-maker is individually liable as well as jointly responsible for the full amount owing the bank. If the borrower fails to pay, the co-makers are required to pay the entire unpaid balance of the loan, plus any penalties. A co-maker may be a fellow employee, office manager, employer, partner, merchant, professional man, relative—anyone of good character and satisfactory earning power. Ownership of property, while not essential, is a desirable qualification. The bank protects the co-maker by ascertaining the responsibility of the applicant before granting the loan and by promptly notifying the co-makers in case compound interest deposits are not made on time.

Punctual and prompt deposits are absolutely essential and required. A "late" charge of 5 cents per $1 will be made for any deposit not made on the agreed date. For instance, if a deposit of $5 is due on a certain day and payment is not made until later the "late" charge will amount to 25 cents.

Persistent delinquency will make it necessary for the bank to notify the co-makers and take proper legal steps for collection. The record of prompt deposit will govern the granting of future loans.

Reports coming in from all parts of the nation indicate that the personal loan plan is spreading with an amazing rapidity. Almost invariably banks have adopted the plan by simply creating another department within the bank, though in at least one instance a new company has been organized to take care of this business. That is in Fremont, Neb., where there has been set up the Fremont State Company, headed by Dan V. Stephens, who is the president of the Fremont State Bank. This new corporation, it is announced, has an authorized capital of $100,000 and will deal exclusively in character loans.

In the newspaper comments on the personal loan movement throughout the country, there is a tendency to hail it as a means of delivering many unwary persons from the clutches of the loan sharks.

The Installment Credit Need

By JOHN H. PUELICHER
President, Marshall & Ilsley Bank, Milwaukee

Business Needs a Formula that is Sound and is Applicable in Each Individual Case of Installment Selling. A Suggestion as to the Conditions Under Which Business is Justified in Extending Consumer Credits. Comparison With Producer Credit.

A FEW years ago installment finance companies were multiplying by leaps and bounds, and when inducements to buy were becoming probable on terms, such as "nothing down and not much anytime in the hereafter," the more conservative of the finance companies, and some of the bankers loaning them money concluded that a conference concerning itself with practices and principles of consumer credit might prove to be profitable.

Such a conference was called at Chicago. During the discussion of practices, the following incident was related by a representative of a New York finance company. The representative was recounting the experience as an illustration of the care with which his company surrounded its credit undertakings! "We were approached," he said, "by one of our automobile dealers and asked to consider purchasing from him the installment paper of one John Smith. The automobile dealer advised us he had checked John Smith up very carefully, had found that he had been in his present place of employment for fifteen or eighteen years, that he justly had the reputation of a steady, sober, dependable employee, who had reared and educated a family, and who now, that the children were out of school thought it time to indulge himself and his wife in the luxury of an automobile. These facts were easily verified by our investigator, but as it is our custom to go a bit further, the investigator went to the home of the prospective automobile purchaser. He found that Mr. Smith lived in a modest apartment house, to which our representative had difficulty in gaining entrance. The woman answering the door acted as if she might be fearing a bill collector; but when our representative announced that his mission was a friendly one, that he came to make it possible for them to acquire an automobile, the woman stepped aside saying: 'Oh, and that too!' 'This installment business is going to be our ruin,' she continued, 'while the children were small and going to school, although there was only one bringing in money at that time, we were able to live comfortably, although rather economically.

More Income But No Better Off

"'THE children are grown up now and are all employed, yet, in spite of that, things are not going so well with us. Formerly a chore-woman would come in two or three days of the week and help me with the heavier work. You see I have grown older, and cannot well do the family washing any more. Later on, however, I was persuaded in the interest of economy to buy a washing machine on the installment plan. Our oldest girl, now twenty-six, has for the first time in her life a steady admirer, for which reason she feels she should be somewhat better dressed. As a result, she is paying for a fur coat on the installment plan. The next child, a boy, always was interested in mechanics, and was continually tinkering with radio parts, hoping to build a radio for himself. He never achieved the results he aimed at, so he finally concluded to purchase a radio, on the installment plan. My next child has a decided musical talent, and it is only fair to give her her opportunity, consequently she is paying for a piano on the installment plan. Our youngest child won a bicycle race while at school. Since then he has been following the sporting news with great interest. He could not be happy until he had a motorcycle, which he is paying for on the installment plan.'

"If any member a party thereto in this complicated financial scheme failed because of illness, or loss of position, or for any other reason, to bring in the regular weekly wage or salary, the whole scheme was likely to collapse. On inquiring at the delicatessen shop doing business in the basement of the apartment house he learned that the family was about six months in arrears, and was being carried only because of a long record of payment up to the preceding year. Needless to say, we did not accept the installment paper tendered in payment of the automobile."

The chief trouble with installment buying thus far is that we know so little about it. Practices have not yet withstood the acid test of sufficient experience, and safe principles have not yet been acceptably formulated.

Prosperity and Installments

THE statement has been made that our present prosperity is largely attributable to installment selling. Prof. Seligman finds that the installment purchases total about $4,500,000,000 a year, and that there is outstanding at one time only about $2,000,000,000 worth of installment paper. It has generally been supposed that installment sales have been running in larger proportions. While the production of $4,500,000,000 worth of goods would be a factor in our prosperity, it would hardly be a sufficiently large factor on which to rest our unusual prosperity.

It is generally conceded that the margins of profit in business are growing constantly smaller, and that business, to be successful, must be conducted along sound, scientific lines. What business needs is more tried and tested formulas. Above all, it needs now a scientific formula for installment selling.

Installment selling as a business process is undoubtedly sound. It is the misuse of installment selling that is unsound. Business needs a formula embodying that which is sound in installment selling—a formula applicable to each individual case of installment selling—that is, to each case of consumer credit presented to it by installment selling. If we use only structurally sound bricks, properly shaped and accurately sized in the building of a wall, employing proved methods of construction, we will rear a staunch and safe edifice. Likewise, if each individual transaction in consumer credit conforms to the specifications of a sound formula for this class of economic process, we will develop a staunch installment selling tradition in American business—a safe consumer credit structure.

Let us compare consumer credit with producer credit. Perhaps it will suggest to us a tentative formula for consumer credit.

Producer credits, or let us say commercial bank loans, are based on one fundamental proposition—that the money-purchasing-power advanced to the producer by the grantor of credit shall be employed in productive manufacturing or mercantile operations which within the period of the loan will generate sufficient income to repay the loan. It is self-liquidating credit; it is generative, or perhaps we might say, re-generative credit; it is fertile and vital and stimulating in our economic life. It has been employed so long and so extensively that many formulas and many rules have been developed and tested by infinite applications for the practical guidance of the users and the givers of producer credit.

Nothing Comparable Done for Consumer Credit

NO such thing as yet has been done for consumer credit. Under this type of credit process there is advanced to an individual by the merchant a larger value of consumers' goods than he can presently pay for, but he obligates himself to pay for them out of the income which he expects he will earn during the next six, eight or twelve months in the form of wages or salary or in other ways in which the goods

(*Continued on page* 995)

Administrative Features of New Revenue Act

By THOMAS B. PATON
General Counsel, American Bankers Association

Change in the Basis for Determining Gain or Loss on Sales by an Executor. The Unnatural Discrimination Against Living Trusts Removed. Real Estate Subdivisional Trusts. The Attitude of the American Bankers Association on the Publicity Amendment.

IN the past application of the Revenue Act certain of its administrative features, because of departmental or judicial interpretation, have caused much concern to officers of trust companies and other financial institutions charged with the administration of trusts by reason of the impracticability or inequity of the law as interpreted. Our members will be gratified to learn that in the new Revenue Act a number of these provisions have been corrected. This result has only been possible because of the patient and conscientious consideration given to these technical problems by the chairmen and members of the Senate Committee on Finance and of the House Committee on Ways and Means and we trust we may be permitted to voice the deep appreciation of the membership of the American Bankers Association for the time and consideration so given. These various matters were presented for Committee consideration through the office of the General Counsel acting under the auspices of our Committee on Federal Legislation with the cooperation of the Trust Company Division; the technical arguments at Washington were chiefly made by particular trust company officials or their attorneys.

A brief summary of the features thus corrected in the new Revenue Act is all that space will permit.

Basis for Determining Gain or Loss on Sale by Executor

1. Prior to April 6, 1927, when an executor sold securities or property of an estate, the value at the death of the decedent was, under Treasury Department Rulings, taken as the basis in computing gain or loss for the purpose of income taxation. On that date, in view of a recent decision of the United States Court of Claims in McKinney v. United States, the Treasury Department amended its ruling and made the cost to the decedent the basis. This change of basis caused widespread concern among trust officials. Many sales had been made on the old basis and estates settled and the injustice of additional assessments was obvious. In a large number of cases it was absolutely impracticable to apply the new rule because of the impossibility for an executor to delve into the records of a deceased person for a long period of years to ascertain the cost to the decedent. Litigation in the courts resulted and the settlement of many estates was held up pending final decision. The matter was presented to the House Committee on Ways and Means and the Revenue Bill as passed by the House contained a provision changing the basis to date of death with a retroactive provision that if in any return prior to 1927 the basis was in accordance with the regulations in force at the time the return was filed and if no claim for a refund or credit had been filed prior to enactment of the new law, the computation of the gain or loss should be made upon the basis of the return. While this provision ratified early returns made on the date of death basis, it did not cover the period between April 6, 1927, and the time of the enactment of the new law. The Senate Committee on Finance remedied this omission and the law as finally passed provides the date of death as the basis (see Section 113 (a) (5)) with a retroactive provision which makes the value of the property at the time of the date of the death of the decedent, the basis for computation throughout. There is a further provision to cover returns which may have been made on the basis of cost to the decedent under the Treasury Department Ruling of April 6, 1927, which enables the taxpayer at his election to retain such basis (see Section 702, new Revenue Act).

Living Trusts

2. Under the new Revenue Bill as passed by the Senate, the basis of gain or loss upon sale in cases of property passing by will was the value at the date of death of the decedent but in cases of property transferred by revocable trust, the beneficial enjoyment passing at death, the basis was made the cost to the donor rather than the value at the date of the death of the decedent. This created an unnatural discrimination which would result in double taxation, namely, a Federal Estate Tax and then again an Income Tax where the value at the donor's death was in excess of the cost to the donor, as such excess would be subject to both estate and income tax should the property be disposed of through a sale at a later time. This discrimination having been brought to the attention of the Conferees, the following corrective provision was inserted in Subdivision 113 (a) (5):

"In the case of property transferred in trust to pay the income for life to or upon the order or direction of the grantor, with the right reserved to the grantor at all times prior to his death to revoke the trust, the basis of such property in the hands of the persons entitled under the terms of the trust instrument to the propery after the grantor's death shall, after such death, be the same as if the trust instrument had been the will executed on the day of the grantor's death."

The Conferees' report explains this as follows:

"A special rule is provided in section 113 (a) (5) by which to determine the basis of property transferred in trust with the right reserved to the grantor at all times prior to his death to revoke the trust where the sale or other disposition of property occurs after the death of the grantor. This rule includes sales or other dispositions by the trustee and also by a beneficiary of the trust. In view of the complete right of revocation in such cases on the part of the grantor at all times between the date of creation of the trust and his death, it is proper to view the property for all practical purposes as belonging to the grantor rather than the beneficiaries and to treat the property as vesting in the beneficiaries according to the terms of the trust instrument not at the date of creation of the trust, but rather on the date of the grantor's death, for the purpose of determining gain or loss on sale or other disposition of the property after the grantor's death by the trustee or by a beneficiary. Accordingly, it is provided that the basis of such property in the hands of the persons entitled thereto by the terms of the trust instrument after the grantor's death shall be the same as if the trust instrument had been a will executed on the date of his death. Thus property acquired by virtue of revocable trusts of the kind described is treated, for all practical purposes, the same as though it had been transmitted by the grantor by will at his death."

Real Estate Trusts

3. Under recent rulings of the Treasury Department real estate subdivisional trusts and other types of trust of like nature have been held to be associations and taxed at corporation rates. Prior to 1927 the income from property held in these types of trust was taxed to the beneficiaries. The change of ruling disrupted very seriously the administration of this type of trust by members of our association. The effect of this change of policy was to reopen thousands of cases and impose an additional tax burden upon the beneficiaries and trustees; with other disastrous consequences. An appeal was made to the Committees of House and Senate to exclude from the definition of "Associations" these types of trust with an enactment of a retroactive clause. The bill as finally passed contains the following:

Sec. 704. Taxability of Trusts as Corporations—Retroactive

(a) If a taxpayer filed a return as a trust for any taxable year prior to the taxable year 1925 such taxpayer shall be taxable as a trust for such year and not as a corporation, if such taxpayer was considered to be taxable as a trust and not as a corporation either (1) under the regulations in force

(Continued on page 984)

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Profits in the Clothing Industry

By D. RICHARD YOUNG

Wearing Apparel and Miscellaneous Textile Products Marked by Greater Stability than Raw Material Industries. Last Year's Earnings Increased 11 Per Cent. Recent Trend Toward Consolidation. The Outlook Satisfactory. Investment Return Moderate.

BANKERS recognize in the clothing industry today a number of characteristics peculiar to this line and a number of definite changes taking place in its organization.

By manufacturing goods for consumption, instead of for further use in production, as in the case of silks, cottons, and woolens, discussed in the preceding three articles of this series on Profits in Industry, clothing is marked by a greater degree of stability than the raw material lines. Production and sale of clothing runs along year after year with much less fluctuation than the basic or supply industries that are farther away from the ultimate consumer.

While the industry as a whole is stable, there are wide fluctuations among the various concerns engaged in it. During any particular year, some concerns making clothing may achieve banner records in sales and earnings, but do so at the expense of other companies. Since there is a rather constant and limited market, the gains of some producers are made only by taking business away from others. This contrasts with the raw material lines which, dominated by the larger and more general operation of the law of supply and demand, and influenced by price movements, tend to swing up or down together.

Style factors become of paramount importance in the manufacture of clothing, and every banker knows how necessary it is for customers in this line to have an up-to-date and progressive designing and sales department. Otherwise the loans extended for raw material and labor may be put into inventory that cannot be moved except at sacrifice prices.

Rate of turnover, therefore, must naturally be high, for finished merchandise that has been held beyond the usual season quickly depreciates. Valuation is customarily made on the basis of cost or market, whichever is lower, but market price of clothing is very difficult to determine. The only sure profit is that actually realized, and not the paper profit contingent on liquidation of a large inventory.

Average ratio of inventory turnover for manufacturers of men's clothing is calculated by the National Credit Office at 7.24 times annually. This is the highest of any of the major industries studied, with the two exceptions of meat packing and flour milling, which average 9.47 and 10.30 times respectively. It compares with 3.52 for woolen mills, 3.39 for cotton mills (New England), 5.27 for converters, 4.31 for hosiery manufacturers, 4.81 for wholesale dry goods, and 5.27 for department stores.

This "Profits" Series

THIS is one of the most interesting and informative of the series of articles appearing in the JOURNAL *on the profits in various lines of industry. Aside from its financial and commercial side the information presented herein is highly suggestive of trends in national life and changes in the attitude of the world toward clothing; and—between the lines—there may be found some indication of the prosperity of the average family.*

FOLLOWING is a tabulation of earnings for the last two years of the leading manufacturers of men's and women's apparel which publish reports to stockholders and in the newspapers. Unless otherwise noted, all fiscal years end Dec. 31, and figures represent net profits available for dividends or to carry to surplus—i. e., after all expenses, reserves for depreciation, and provision for taxes have been deducted.

In the latter part of the table are "miscellaneous textile products," which in themselves make up several small industries, but are grouped here for convenience, since time prevents their being taken up separately in this series of analyses. Included therein are thread, pile fabrics, upholstery goods, carpets and rugs, linoleums, oilcloth, jute, bagging, etc.

Earnings of Leading Manutacturers

Net Profits—000s Omitted

Manufacturers Clothing	1926	1927
Adams-Millis Corp.	557	707
Alligator Co.[1]	*206	*206
Cavanagh-Dobbs, Inc.[2]	*620	*1,052
Charis Corp.	171	282
Cluett, Peabody & Co.	1,772	2,282
Davenport Hosiery Mills, Inc.	403	...
Alfred Decker & Cohn, Inc.[2]	466	378
Durham Hosiery Mills	222	101
Elder Mfg. Co.[3]	204	191
Fashion Park, Inc.[4]	*562	649
Federal Knitting Mills Co.	129	...
Foreman & Clark, Inc.[1]	*841	*841
H. W. Gossard Co.	511	876
L. Grief & Bro., Inc	898	733
Hart, Schaffner & Marx[4]	1,874	2,245
Ipswich Mills[2]	299	D-369
Kaynee Co.[5]	242	...
Knox Hat Co., Inc.	556	646
A. B. Kirschbaum Co.	138	108
B. Kuppenheimer & Co., Inc[2]	701	769
Manhattan Shirt Co.[4]	1,181	1,357
Munsingwear, Inc.[4]	1,530	1,408
A. Nash Co.	464	544
Phillips-Jones Corp.	491	499
Robert Reis & Co.	D-141	192
Reliance Mfg. Co.	632	888
Richman Brothers Co.	2,892	3,276
J. Schoeneman, Inc.[6]	372	...
Stein-Bloch Co.[4]	*262	252
John B. Stetson Co.	2,241	...
Miscellaneous Textile Products		
Allen Industries, Inc.	286	...
American Mfg. Co.	676	456
American Thread Co.[7]	D-553	172
Artloom Corp.	1,288	903
Joseph Bancroft & Sons Co.	580	...
Bigelow-Hartford Carpet Co.	1,550	2,137
Sidney Blumenthal & Co., Inc.	D-76	1,056
Collins & Aikman Co.[8]	3,193	1,654
Congoleum-Nairn, Inc.	463	1,057
Crex Carpet Co.[5]	D-28	D-167
LaFrance Textile Industries	*470	*788
National Automobile Fibres, Inc.[1]	*237	*237
Plymouth Cordage Co.[6]	1,010	...
Powdrell & Alexander, Inc.	303	341
Sanford Mills[4]	1,507	1,541
Standard Textile Products Co.	115	663

[1]Yearly average; [2]Years ended Oct. 31; [3]Years ended April 30; [4]Years ended Nov. 30; [5]Years ended June 30; [6]Years ended July 31; [7]Years ended March 31; [8]Years ended Feb. 28; 1928 includes 9 months; D, Deficit; *Before certain charges.

Comparative figures for the two years are available for twenty-four apparel manufacturers which in 1927 had combined net profits of $19,269,000, as compared with $17,233,000 in 1926, a gain of 11.8 per cent. Sixteen companies had higher earnings last year compared with the year previous, and only eight were lower.

Similar figures for eleven manufacturers of miscellaneous textile products show $10,728,000 aggregate profits in 1927, compared with $7,144,000 in 1926, a gain of 50.2 per cent. Nine companies reported higher earnings last year and only two were lower.

Trend Toward Larger Organizations

UP to the present time the clothing industry has been one of small producers, numbering many thousands. Because of the style factor just referred to, the industry has not adapted itself to large-scale production, and the consolidation movement during the last generation has taken in one after another of our major industries, but passed by clothing. Small manufac-

(*Continued on page* 1010)

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The Condition of Business

Irregularity Prevails Among Major Industries But Strength and Stability of Fundamental Conditions Inspires Confidence. Money Rises to Highest Levels Since 1921 as Result of Credit Expansion. Bond Prices Lower But New Underwritings Continue Large.

IRREGULARITY still prevails in business. With some lines enjoying real prosperity, others running along normally and others suffering serious depression, the average might be said to be satisfactory. Strength and stability of the fundamental factors inspires confidence in the future outlook.

Advance in money rates has been the feature of the business situation during the past month, with call money reaching 6½ per centum, the highest for seven years. While this is a temporary condition and counter to the downward trend of world money rates, it is in no sense artificial, but the direct result of $2,000,000,000 expansion in bank loans and investments over the last year at a time when the Federal Reserve System was losing $400,000,000 in gold.

Action by the New York and other Reserve banks in raising the rediscount rate to 4½ per cent or the highest since 1923 merely brought this rate into line with the higher rates for money now prevailing generally. Combined with the sale of government securities it has had, as apparently intended, some effect toward checking speculative activity.

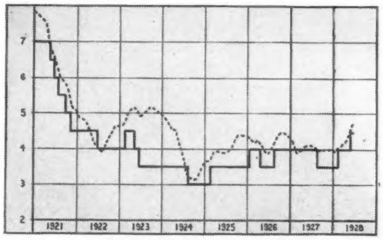
Yet stock trading continues in record volume and the few serious breaks that have occurred have been followed by sharp recovery, indicating that leading stocks are still in strong hands and that the extensive "short interest" is being kept in an uncomfortable state.

Quarterly earnings of industrial companies this year are about on a par with a year ago and considerably improved over the fourth or third quarters of 1927. Reports of 210 representative concerns show for the initial quarter of the two years a growth of 5.6 per cent, but it is significant that without General Motors there is a decline of 0.6 per cent.

Bond prices display a sagging tendency as a result of higher money rates and losses have taken place in United States Government issues as well as domestic and foreign corporation bonds. New underwritings continue heavy and it is interesting to note that of the major issues last month, listed at the end of this review, German loans made up 22 per cent.

Treasury plans for refunding the Third Liberties maturing September 15 are being halted because of money conditions and only a short-term certificate offering is expected in June.

Bright spots in the industrial picture are the oil industry, marked by declining production and advancing prices, also building construction, tobacco, automobiles and chain-store trade. Volume of railroad traffic is running lower than in either 1927 or 1926, steel prices and unfilled orders are declining and in numerous other lines there is a lack of buoyancy. General outlook might be described as fair.



New York Reserve Bank rediscount rate is raised to conform with commercial paper rates (dotted line)

Money Becomes Firmer

COMPARISON of money rates with those prevailing last summer reveals a truly remarkable change for so short a period. Average rates in New York for the two periods were as follows:

June	1927	1928
Call loans	4	6½
Time loans	4¼	5½
Commercial paper	4¼	4½-¾
Acceptances, 90 days	3½	4⅛
Reserve Bank rediscounts	4	4½

Not since 1921 has call money been as high as 6½ per cent. This rate has been the most conspicuous feature, but the rise in time money, commercial paper and bank acceptance rates furnishes a more reliable index to the money market and proves that present conditions are natural, not artificial as some commentators indicate.

Action by the Federal Reserve Bank of New York in raising its rediscount rate on May 18 to the 4½ per cent level now established by eight of the regional banks was not unexpected. That it did not take place sooner was in fact a reason for surprise on the part of many bankers.

This action following the increase from 3½ to 4 per cent on February 3 brings cost of rediscounting to the highest since the spring of 1923 or more than five years ago. Changes in the New York bank rate since 1921 are shown in the accompanying chart which also carries the average commercial paper rate.

Attention is called to the fact that changes in the central bank rate invariably follow rather than precede changes in open market rates. On this point there has been considerable misunderstanding. Reserve banks do not and cannot make general interest rates, but only conform to the price of credit which like other prices is determined by supply and demand.

"Artificial" firmness of money, therefore, is a misnomer, which seems to be used by those having in mind what might better be expressed as "temporary" conditions. Upturn in rates this year is in direct contrast with the long-term trend of interest rates the world over, which is downward. Only a matter of time is needed until we shall see American bank rates turn downward again and fall into line with the broad economic trend.

Delay of the New York Reserve Bank in increasing its rediscount figure is believed to represent its effort to check speculation on the stock exchanges by making rates in other centers higher than in New York so as to attract funds away from the market. Correct in theory, this might be spoken of as an experimental move and was partially successful, as evidenced by some calling of loans by interior institutions. More drastic action, however, was needed and eventually the New York rate was increased.

Uniformity of all Federal Reserve banks on a 4½ per cent basis appears likely in due course. Since Chicago and Boston began the movement on April 20 similar action has been taken by Richmond, Dallas, St. Louis, Minneapolis, Philadelphia, New York and Cleveland. Atlanta, Kansas City and San Francisco are expected to follow shortly.

Banking Expansion and Gold Exports

READERS of this review who have noted our frequent repetition during recent months regarding the expansion of bank credit on the one hand and loss of gold reserves on the other will recognize the present high money rates as a direct result of these combined influences.

Growth of loans secured by stocks and bonds carried by member banks during the past year has been as follows, using one weekly statement from each month.

000,000 Omitted	Secured Loans	Change
May 18, 1927	$5,799	....
June 15	5,989	+ $190
July 13	5,900	— 89
August 17	5,965	+ 65
September 14	6,140	+ 175
October 12	6,198	+ 58
November 16	6,352	+ 154
December 14	6,539	+ 187
January 18, 1928	6,656	+ 117
February 15	6,482	— 174
March 14	6,526	+ 44
April 18	6,837	+ 311
May 16	7,021	+ 184
Net change in year		+ $1,222

Corresponding expansion in investment holdings of member banks is as follows:

000,000 Omitted	Investments	Change
May 18, 1927	$6,032	....
June 15	6,176	+ $144
July 13	6,015	— 161
August 17	5,913	— 102
September 14	5,939	+ 26
October 12	6,067	+ 128
November 16	6,293	+ 226

000,000 Omitted	Investments	Change
December 14	6,365	+ 72
January 18, 1928	6,544	+ 179
February 15	6,535	− 9
March 14	6,538	+ 3
April 18	6,618	+ 80
May 16	6,654	+ 36
Net change in year		+ $622

In addition, commercial loans during the twelve months increased by $367,000,000 but this is relatively unimportant compared with the gain in secured loans and investment holdings. Of the three groups combined, representing an expansion of bank credit just short of $2,000,000,000, so-called commercial loans accounted for only 18 per cent.

At the very time when American banking resources were being so rapidly expanded a loss of gold reserves from the holdings of the Federal Reserve banks occurred as follows:

000,000 Omitted	F.R.B. Gold	Change
May 18, 1927	$3,057	....
June 15	3,017	− $40
July 13	3,013	− 4
August 17	3,003	− 13
September 14	2,994	− 6
October 12	2,971	− 23
November 16	2,889	− 82
December 14	2,792	− 97
January 18, 1928	2,808	+ 16
February 15	2,814	+ 6
March 14	2,788	− 26
April 18	2,719	− 69
May 16	2,634	− 85
Net change in year		− $423

It is no wonder that thoughtful bankers have watched with concern this steady withdrawal from the foundation of the country's credit system at a time when the superstructure was being rapidly expanded. It is believed that the above figures speak for themselves and give a quite complete answer to the question of why present money rates are so high. Needless to say the future weekly reports will be awaited with much interest.

Brokers' loans registered a slight downward turn on May 23 which was the first decline in eleven weeks. Standing on that date at $4,456,000,000 they were $46,000,000 below the record-high established on May 15, but $1,491,000,000 higher than at the corresponding time a year previous and $2,025,000,000 above two years ago.

Stock Market Active and Irregular

DURING recent weeks the movement of stock prices has been so irregular both as to trend and industrial groups that the market defies analysis as a whole. Some of the significant conditions may be referred to briefly as follows:

Volume of sales on the New York Stock Exchange in the first five months this year amounted to 345,000,000 shares compared with 222,000,000 in the corresponding period of 1927, 180,000,000 in 1926, 175,000,000 in 1925 and 97,000,000 in 1923.

Volume on the New York Curb amounted to 82,000,000 shares compared with 36,000,000 last year.

As an emergency measure the New York Stock Exchange has been closed on Saturdays for the last two months to allow the bookkeeping departments of member firms to catch up on recording this enormous business.

For the further relief of brokerage employees the Exchange changed the hours of closing from 3 p.m. to 2 p.m. beginning May 20, which action was followed by numerous other American exchanges. Widespread objection by traders and brokers alike caused the new schedule to be abandoned after one week.

Years ago it was said that in Wall Street only two things were certain—that the Exchange opened at ten and closed at three, and that Erie common would never pay a dividend. Now one of these sacred traditions has been broken and the other appears in a fair way to pass.

May 10 witnessed a wide-open break of anywhere from 5 to 40 points in active stocks on a day's turnover of 4,820,840 shares, a new record for all time.

Followed by days of sharp recovery, and irregularity, another sharp break occurred May 28, precipitated by call loan rates going to 6½ per cent, the highest for seven years.

Capacity of stock tickers has been so exceeded that quotations may be a half-hour or more behind the market, and on one day did not finish until eighty-nine minutes after the market's close.

Quarterly Earnings Gain 5 Per Cent Over Last Year

REPORTS of quarterly earnings that have been published to date make a better showing than did the statements of the last quarter of 1927 and are about on a par with the first quarter of 1927. Our tabulation of 210 companies engaged in various lines of industry totals up $289,077,000 for the initial three months of 1928 compared with $273,593,000 in the corresponding period of 1927, a gain of 5.6 per cent.

General Motors Corporation as usual accounts for the entire gain and without this industrial giant whose growth in earnings seems unlimited, the 209 other representative companies that have reported show aggregate net profits of $219,608,000 in the quarter compared with $221,092,000 last year, a decline of 0.6 per cent; 117 of these companies are ahead of last year and 93 have lower earnings.

Marked increases are shown in the motors as a group, also copper mining, chain stores, chemicals and drugs, leather and shoes, and food products.

Substantial declines are being encountered in earnings of petroleum companies, also railway equipments, iron and steel, and building materials.

For the other lines no great changes have occurred and the showing is therefore satisfactory, considering that the first quarter of 1927 was a prosperous one for comparative purposes.

Final Report on 1927 Earnings

BECAUSE of the interest shown in our tabulation of industrial earnings as published in the March review, and referred to last month, we are again running the classified table which has been brought up to date by including all reports issued to June 1.

Made up of nearly 1200 companies and including the leading organizations in every line, it is believed that these figures may be considered as final and that they give an unusually broad picture of conditions in American industry as they existed over the past three years. Fiscal years end Dec. 31 in most cases, with a limited number ending July 31, 1927 to Jan. 31, 1928.

Commodity Prices Higher

PRICES appear to be moving to a slightly higher level generally although there is considerable irregularity among individual commodities. Grains have reacted somewhat after the bull market which reached its peak around the first of May.

Wheat is selling in Chicago at approximately $1.90 per bushel compared with the current year's high of $2.33 and low of $1.52; corn is $1.25 compared with a high of $1.33 and low of $1.02; oats at $.80 compared with a high of $.86 and low of $.65; rye at $1.40 compared with a high of $1.56 and low of $1.19. Present quotations are well above those prevailing in June a year ago.

Most foodstuffs are moderately above last year, including butter and eggs, flour, coffee and beef, but pork products are lower, as is sugar.

Iron and steel have shown little change but copper and zinc are working higher, while lead and tin are lower.

(*Continued on page* 1018)

Major Financing in May

Issue	Amount	Rate	Due	Price	Yield
Commonwealth of Australia, ext.	$50,000,000	4½	1956	92½	5.00
Associated Gas & Elec. Co. ref. deb.	35,000,000	5	1968	100	5.00
German Central Bank for Agriculture, s.f.A.	30,000,000	6	1938	95½	6.62
Province of Ontario, Canada	30,000,000	4	1929-68	..	4.30-.45
Union Pacific RR. Co.	20,000,000	4	1968	92¾	4.38
Mortgage Bank of Chile, grd. s.f.	20,000,000	6	1961	95¾	6.30
German Consol. Svgs. Banks and Clearing Assn. s.f. sec.	17,500,000	6	1947	94½	6.50
Lincoln Building, New York, 1st s.f.	16,000,000	5½	1953	100	5.50
Westchester County, N. Y.	15,511,000	4	1929-78	..	3.90
City of Berlin, Germany, s.f. ext.	15,000,000	6	1958	95	6.38
Southern Cities Utilities Co. 1st & col. tr. A.	10,500,000	5	1958	94	5.40
Allgemeine Elektricitats Gesellschaft, s.f. deb.	10,000,000	6	1948	94½	6.50
Great Lakes Paper Co., Ltd., 1st s.f. A.	10,000,000	6	1954	100	6.00
Detroit & Canada Tunnel Co. 1st s.f.	8,500,000	6	1953	100	6.00
Detroit & Canada Tunnel Co. conv. s.f. deb.	8,500,000	6½	1948	99½	6.50
Susquehanna Silk Mills, s.f. deb.	8,000,000	5	1938	96	5.50
Houston Gulf Gas Co. s.f. deb.	8,000,000	6½	1943	99	6.60
Dept. of Akershus, Norway, ext. s.f.	8,000,000	5	1963	97¼	5.17
State of Illinois	7,000,000	4	1945-58	100¼	4.00
Howard Smith Paper Mills, Ltd., 1st s.f.	7,000,000	5½	1953	99	5.57
American Gas & Power Co. sec. deb.	6,500,000	5	1953	95½	5.30
Frankfort-on-Main, Germany, s.f. ext.	6,250,000	6½	1953	99½	6.50
U. S. & British Inter. Co., Ltd., deb.	6,000,000	5	1948	95	5.40
American Ice Co., s.f. deb.	6,000,000	5	1953	100	5.00
Lincoln Building, New York, s.f. deb.	5,500,000	6½	1948	100	6.50
Texas Cities Gas Co., 1st.	5,400,000	5	1948	98½	5.10
Sun Office Buildings, Los Angeles, 1st.	5,250,000	5½	1930-48	100	5.50
Richfield Oil Co., conv. notes	5,000,000	5½	1931	100	5.50
Unterelbe Power & Light Co., s.f. A.	5,000,000	6	1953	93	6.55

(*See text on page* 1018)

Financing the Small Utility

By C. M. HARGER

With the Grouping of Village Light and Power Plants Into Systems a New Field Is Opening In the Middle West for Trust Company Operation. Bond Issues Are Taking the Place of Stock Selling and the Basis for Profits Grows Sounder.

A Place for Capital

THE interior states are being electrified rapidly and farmers, as well as the smallest villages, are becoming users of power and light. With this change there is developing a demand for capital to finance the merging of small municipal and private plants into systems of a size that will cut operation costs. In many cases the capital needed is too small to attract the financing corporations of the big cities. The formation of small companies to sell bonds, not stocks, seems to offer an opportunity for banker consideration.

A SIGNIFICANT outcome of the readjustment going on in the financial structure of the interior states is the transformation affecting the management of utilities. In the days of settlement few undertakings offered so fascinating promises of profits as the establishment of waterworks, light, gas and telephone plants in the growing towns and cities. Capital came largely from New England, and the desire of the municipalities for the conveniences of modern civilization led to most liberal terms as to franchises and rates.

Naturally, because they were constructed as speculative enterprises, the plants were built with more emphasis on appearance and for quick service than for endurance. As the towns developed, some of them into sizable cities, the plants took on added importance, but often it was found that the ability to serve completely the greater demand was a strain on the equipment.

In one important class of municipalities there was a positive refusal to grant franchises, and local statesmen pointed out the vast saving that might be made by building a municipal plant, running it by the elective officers of the town and lessening the tax rate through the profits of the plant. Hence there were bond issues, eagerly voted by the citizens, and there followed construction of electric light plants, telephone systems, water plants, gas plants, and similar undertakings to be managed by the political powers that might be. Mutual telephone systems were scattered thickly over the landscape, frequently built with a flimsiness that caused wonder that any service could be obtained.

When Replacement Came

IT is typical of the average municipal management of public affairs that unless statutory requirement compels, little provision is made for obsolescence or depreciation. Each administration is concerned with keeping down the tax levy in order to make a record. Hence, when the plants needed replacement, the only remedy was to issue more bonds. War time doubled the operating expense and increased cost of repairs. The plants not only gave meager service, but were expensive for the communities and for the customers.

The privately-owned plants were quickly adjusted to the new conditions. United into great systems, and gradually adding more service, they eliminated power houses, machinery and employees, and distributed current or gave telephone service with a minimum of operating cost, with all auditing and management at a central point. The Middle West, where, because of its settlement conditions, flourished most abundantly the theory of government management of utilities, was inclined to legislate severely on management of corporation properties. But the experience of the communities which not only paid for a service below par but also were taxed to build or to maintain them has brought a change, and the legislatures are now giving the consolidation of plants a fair opportunity to carry on plans for better service at a lower cost. So eager are the small towns to get rid of their burden that in many instances not only is the municipal equipment given over, but a bonus reaching as high as $10,000 has been donated to the corporation that would take a plant off a town's hands.

Financing at Home

ACQUIREMENT of these scattered plants and combining them into efficient systems has called for a vast amount of financing in which local capital has been liberally drawn upon. Naturally the idea of customer ownership was favored because of the sentimental value in legislation. When several thousand of the most successful citizens of a state are holding interests in utilities there is a disposition on the part of the lawmakers to go slowly in attacks. Some of the grouped utilities have more than 5000 stockholders each, including in the leading families of each of the towns served. One power company in Kansas serves 167 towns and cities and has 4000 stockholders. A telephone company operating plants in five states has over 3000 stockholders. Quarterly dividend checks that are awaited with keen concern by the stockholders are distributed by the tens of thousands all through the interior states. Ten years ago practically every plant was municipally or individually owned and dividend checks were so rare as to be curiosities.

The transformation of the struggling local plants into profit-paying institutions has come through lessened overhead and a larger service to the customer. Public service commissions, realizing this, have been liberal in allowing rates that would meet the conditions. To finance these consolidations at home meant paying 7 per cent for funds, the rate generally borne by preferred stocks issued to raise capital. In addition the corporation tax has been adding approximately one per cent more.

Paying thus 8 per cent for the funds used in development, together with the local and state taxes on the physical property of the corporations, the investors were abundantly satisfied while the public had no complaint since it received a complete and efficient service.

As business became stabilized and the workings of the pioneers in utility combinations demonstrated the feasibility of the new idea, a rush began to gather up all the individual plants remaining. As a consequence there have been formed new organizations with this plan in view and they have combed the farm states to obtain the management of plants and unite them into larger units.

But it is becoming apparent that with the more satisfied attitude of the public the necessity for dispersing stocks among customers is less essential to the procuring of a fair treatment from the public than formerly. The value of the utility is accepted and the public relations of the corporations with the community were never on so amicable a plane. Likewise it is realized that municipal management is far less efficient and far more costly. Hence there is a disposition to welcome the approach of the promotion of a combination that promises a change for the better, allowing the corporation to use its own methods of financing.

The procedure of financing these new organizations is changing from stocks to

bonds. The latter can be floated at not to exceed 5 per cent, a direct saving of 3 per cent and giving a better control of the security. The preferred stocks carry no voting power but the holder is always subject to nervousness if for any reason there is embarrassment or difficulty in operation. To maintain the prompt quarterly payment of dividends sometimes means borrowing at local banks and consequent added burden. Where bond interest might be managed because of the fewer holders the small stockholder is intensely concerned with every movement of the corporation and may on occasion make its procedure difficult or at least give annoyance.

Where Size Counts

TO finance a utility that reaches into hundreds of communities and requires a loan of $5,000,000 is not difficult. The banks and trust companies of Chicago, New York and Boston are willing to make appraisals and, if the report be satisfactory, to accommodate the institution. The bonds can be placed with their correspondents and they can maintain a regular watchfulness over the management to insure prompt meeting of interest. The retirement of the preferred stock of some of the larger utilities has been accomplished by this means or if stock is not retired the expansion is carried forward by such bond issue and the necessity for further sale of preferred stock is abrogated. This gives to the company relief from a constant effort at salesmanship, for mostly the stock sold to local investors has been disposed of through direct sales.

But many of the newer corporations are not operating on so large a scale. They are uniting say twenty telephone exchanges with a total of 20,000 stations. A single plant with that number of stations is a valuable possession; several separated towns with that number as a whole give also a definite income and with operating costs reduced through central management there is a possibility of greater income than they had before returned, though probably not so much as if they were all in one community.

To finance this combination requires say $50,000 or $100,000, a sum far below the figures in which the city financiers prefer to deal. Also, these plants are far out in the west, their conditions and actual value are somewhat unfamiliar and the outlook for their future is not clear. Such a group of plants out in Oklahoma would not appeal to Boston capital, though it might have intrinsic worth.

Small Trust Companies

THE recourse of the small utility is then in a smaller financing company, hence the establishment of trust companies in the interior with much more modest aspirations than those of the large cities. These companies are equipped to handle the securities of the small utility both because that is the business for which they are looking and because they are close to the properties and can be fully familiar with the conditions and the management and understand just what is to be expected from a given combination of properties.

Some financial experts believe that in the case of these small utility corporations means should be provided whereby investors in their bonds or debentures will participate in future earnings, either through conversion into common stock or through a warrant attached to the bond or debenture giving the investor a right to buy common stock at a specified price within a specified time. If the banking house underwriting the bonds be qualified the probabilities are that a substantial majority of the issues they bring out will enjoy prosperity of varying degrees and the conversion privilege will add materially to the value of the investment, giving the investor an additional profit for his faith in the undertaking. The idea, of course, is that he is entitled to obtain, in case of the success of the consolidation, a larger income than the 5 or 6 per cent which he receives as a holder of the bond. This, however, is largely speculative as to its incorporation in bond issues. The issues being made now are sold on their merits and the basis is the showing of the companies with an estimate of their future earnings. These are constantly growing with the development of the country and show some remarkable advances in their added business.

Back of the proposition of the small utility is not only its present volume of operation but the prospect of future growth. The population of the interior states, generally, is changing very little. In some states, like Iowa and Kansas, it is practically stationary. But into the utility field is coming a constantly larger constituency. This is particularly true in the supplying of current. Scores of little towns have existed since their organization without electricity. The streets were lighted, if at all, by kerosene lamps set on poles; the homes and business houses had their illumination from the old time "coal oil," and such power as was needed came from gasoline engines.

When the large systems were organized the transmission lines gave opportunity to add these little villages to the ensemble and suddenly the towns took on metropolitan airs—street lights, current for motors in garages and other similar places, vacuum cleaners, ice making machines, electric table equipment. Tens of thousands of added customers are thus made a part of the system and not only become users of current but are potential customers for equipment of every sort. This increased development of the corporations account for much of their prosperity while the more intensive coverage of the former territory is also bringing new income.

That there has been reached a peak in use of current or of the telephone is an entirely false assumption. The average home of the prairie village is becoming as ambitious as that of the eastern city for every possible modern improvement and constantly is a market for more and better service. Consequently the plants serving a group of cities are finding their gross business increased while their overhead is far below the cost of days of individual operation. Here is a margin of profit that shows no sign of diminution and indeed has possibilities for yet larger return. The small trust company handling its securities is thus in a position to develop its own business and maintain a secure financial standing.

Of course, something of the future depends on expansion of the use of utility service. The managements of the systems of utilities that are being developed look for greater demand from the farms. The western farmer seizes quickly upon any added pleasure that may be attainable. He has developed the rural telephone until practically every farm has its party line. Many of the rural lines have been absorbed by the larger systems and in the end probably this action will be general. The radio found its market in farm homes one of the enormous factors in its growth. Already thousands of farms are electrified. One power company recently applied to the public service commission of its state for permission to donate $200 to each farmer seeking service, for the cost of installation is the chief cause of progress being moderate along this line at present. Various factors enter into this, the principal one being the difficulty of finding a connected line of farms all of which will install electric facilities. With nearly half the farms of states like Nebraska, Kansas and Iowa operated by tenants the owners are not eager to invest in the new equipment. The result is an excessive cost to the individuals. Various plans for lessening this have been proposed. Nebraska, for instance, by statute gave townships a right to issue bonds to construct transmission lines reaching every farm, but it was declared void by the courts. Experiments are being carried on by colleges and engineers to determine the feasibility of electrifying the farm and these are inducing progressive producers to install current for various farm and home operations.

Students of the west's development declare that the use of electricity and gas has only touched the vast field possible for expansion and that the next decade will see a tremendous increase in the volume of the utility concerns. With the cost of operation reduced and gross income increasing there should be profit for the organizations financed by the small trust company. Gathering a large number of producers and a large number of communities into one system's service gives a sound basis for profits, provided there is not over-capitalization and the eagerness to sell stocks does not overstep the bounds of safety.

The protection of the investor is, of course, in regulation by public service commissions and their close watch on the financial procedure of each concern. Greater appropriations for the use of expert assistance in the engineering departments of these commissions are being granted readily by most states and the public is in a mood to accept all possible consolidation of plants provided it receives fair rates and a better service—which has been the result in every instance thus far in the development of the new idea.

Until the saturation point is reached—if ever—there is a field for the small trust company in the interior and its ability and familiarity with conditions will be the tests by which it will make its history.

May Financing

According to compilations made by the New York *Journal of Commerce*, new financing for May amounted to $1,118,597,593. The new financing for the corresponding month last year was $892,032,624, which shows an increase for May of this year of $226,564,969.

In April of this year the new financing amounted to $1,039,535,606.

Old Missouri's Fighting Banker

By MACK B. JONES

Cleaning Up a Gang of Circus Toughs Was All In the Day's Work of Maysville's Pioneer Financier. He Allowed No One to Swindle the Customers of His Bank. He Searched Through Four States to Find the Heirs to Long-Forgotten Accounts

NORTHWEST Missouri in the 70's was not the peaceful, prosaic section it now is. There were stirring times in those pioneer days, and banking, along with other lines of commercial and business activity, had its thrills. One of those who helped to furnish them and really enjoyed them was Captain James Ewart, a big, dynamic son of Erin, who ran a bank of the old school at Maysville. He lived and slept in the bank, was on the job early and late, and would open up at any hour to receive or pay out money. He left behind a wealth of stories of his resourcefulness, courage, and common sense, many of which are legends of the region.

Early in the 70's a circus came to Cameron, and the countryside for thirty miles around gathered for a holiday. In those times circus crews were a hard lot, and when the tents were up and everything was ready for the performance, the roustabouts sometimes proceeded to drink freely and to take the town. The town marshal was the entire police force, and it was not long before the circus toughs had put him out of business. The citizens of Cameron made such a roar over the situation that a dozen of the most likely fighters of the section were deputized to run the revelers out of town. Among the hardy dozen was Captain Ewart, who had driven over to Cameron from Maysville in a spring wagon, bringing a number of the young women of that town to see the show.

Headed by Captain Ewart, the deputized citizens swooped down upon the circus toughs and started to fill the town jail with them. They surrounded a tent in which a number of the roisterers were making merry, and called upon them to come out. The thugs came to battle eagerly, armed with tent stakes, and soon had the most of the deputies either knocked out or on the run.

A Fight Against Odds

CAPTAIN EWART, unable to hold his force in line, decided to fight it out alone. A giant in stature, he feared nothing. So he backed up against a store building and told his assailants to come on. They came. The mud was six inches deep in the unpaved street, and the footing slippery, which may have had something to do with the captain's success. At any rate, it was only a few minutes until the air and the mud were full of flying or prostrate toughs. Captain Ewart would grab one of the smaller attackers and, swinging him around as though he were a piece of timber, would mow down the advancing horde. One man he threw through a store window, another he knocked cold and stood upon to gain a firmer footing.

Finally the survivors rushed him and one of them stabbed him in the face with a dirk. This made the captain really angry and he tore into the gang with a fury unusual even for him. By this time some of the other deputies were coming back to life and rallied to the captain's assistance. The roughs were soon finished up, and it was only then that it was noticed that the dirk still was sticking in the banker's face. It was removed, the wound was dressed, and a survey was taken of the battleground. It was found that the captain had put out of business for the time being at least twelve of the gang. One, on whom he had stood in the mud, was at the point of death for several weeks, but finally recovered sufficiently to be shipped out of town. That particular circus gave no more trouble in that section of the country.

A Bluff That Worked

ON another occasion several of Captain Ewart's bank customers were fleeced by shell-game men and other swindlers. He armed himself and went to the circus grounds called the manager out of his tent and demanded the return of the money taken from the villagers, one of whom had lost $600. The manager said he had nothing to do with the gambling games around the circus and refused to pay. The captain flashed attachment papers on him, and the bewildered manager, thinking he had been caught napping, promptly produced the money to cover all the losses of the bank's customers.

Monarch of his own business, Captain Ewart ran it to suit himself. Some of the old settlers came into the bank one day and told him that the bank in Stewartsville, a nearby town, would pay them 10 per cent on their deposits. They were receiving only 4 per cent at the captain's bank. He said to them: "If you stay with me, you will get your 4 per cent and you will also get your principal back in a year or so." They were not satisfied, and several of them transferred their accounts to Stewartsville. The bank there closed soon after and they lost everything.

The bank collected money for farm implement dealers, threshing machine companies, lightning rod agencies, etc. In fact, they handled thousands of dollars in sight draft and note collections, crediting accounts that had run along for years. Some of the companies failed or liquidated, leaving balances in the bank for, in some instances, ten or fifteen years. These unclaimed deposits worried Captain Ewart, and he finally decided to clear them up. For a year he hunted the legal owners or heirs, and in all distributed several thousands of dollars to rightful claimants. One old threshing machine company has been out of business for years, all the former owners having died and their estates having been settled. Captain Ewart found that a $500 balance in his bank never had been called for, so he made about twenty checks in settlement of it and traveled around four different states locating the parties interested. After it was all over he had a little celebration, saying a big load had been lifted from his mind.

His Word His Bond

AMONG the oldest and most reliable private banks in Missouri at that time was Tootle, Lemon & Co., of St. Joseph. Captain Ewart had unlimited credit with that firm, and although his bank had only $10,000 capital, he could borrow $200,000 from the Tootle, Lemon & Co.'s bank any time without any collateral.

Most of the loans made by Captain Ewart's bank were on first trust deeds, secured entirely by farm lands around Maysville, and in the thirty years I was with him there was only one foreclosure, quite a different story from the happenings in recent years in the same section.

Conditions Abroad Better

GENERAL trade and finance abroad have improved somewhat during May, according to the survey of the Guaranty Trust Company of New York. Speculation in the principal foreign markets appears to be continuing the strong upward trend visible in the last few months. The number of workers unemployed has been slightly reduced, and labor conditions appear much more satisfactory. An effort is being exerted continually throughout Europe to preserve stability in industrial as well as financial movements. However, unemployment continues to represent a heavy burden on German industry. The recent improvement in this respect is less marked than a year ago, and is considered less than normal for the season. Activity in the building trade, one of the country's key industries, is largely confined to projects already begun, the volume of new undertakings having declined considerably.

Protecting Banks on Collections

By THOMAS B. PATON, JR.

The Adoption of a Standard Form of Agreement with Depositors Is Necessary. Courts Have Held that the Printing on Deposit Slips Not Conclusive of a Binding Collection Agreement. In Building Up Good Will Banks Often Underwrite Many Needless Risks.

ATTEMPTS have been made to explain how important it is for the general protection of banks that they should adopt the proper form of collection agreement. It is true, nevertheless, that some banks as a matter of policy do not like to antagonize their customers by exacting of them a waiver of their alleged rights, such banks preferring to absorb the loss in case of default or negligence of their correspondents.

This policy of "the customer is always right," quite prevalent in our modern industrial life and regarded as an essential element in building up confidence of the public in the organization, leads some banks to sacrifice too much in the way of concessions. In an effort to build up good will has the bank underwritten too great a risk? Is their willingness to play the martyr and forego the advantages of a protective agreement a justifiable risk, which is adequately compensated for in the form of new business and satisfied customers?

That a collection agreement, placing the risk of loss upon the depositor is a reasonable precaution for the bank to take, has been commented upon favorably by the Supreme Court of South Carolina in a recent decision (Ryan v. Columbia National Bank). In this case a notice was placed upon the deposit slip which relieved the bank of all responsibility for loss. The law, independent of this notice, was against the bank. The bank was presumed to have acted as agent of the depositor, and to have become responsible for the injurious acts of its agent, the collecting bank. The effect of this stipulation, if assented to by the depositor, completely reverses the established law; it makes the depository bank simply a forwarder of the check for collection to the collecting bank, as the agent of the depositor, and relieves it of all responsibility in connection with the collection and its remittance. The court stated that this stipulation was as strong as could possibly have been drawn to relieve the depository bank of all possible responsibility for loss not due to its own negligence. In discussing the advisability of a bank limiting its responsibility by such a stipulation, the court said:

"Viewing the transaction largely as a matter of convenience to the depositor, in which the bank ordinarily receives no compensation beyond the general deposit account of the depositor, which, however, is a sufficient consideration for the undertaking of the bank, *it does not appear to be an unreasonable precaution for the bank to take, limiting its undertaking by such a stipulation, provided that it has become a matter of convention between the bank and the depositor.*"

Of course, the wisdom of using a protective agreement is a matter which rests solely with the banks themselves. Like the mythical ostrich which placed its head under the sand, the bank should not be lulled into a sense of security by the fact that it has not up to the present time suffered any severe collection losses. The bank should not shut its eyes to the fact that lawsuits on this very problem, as a matter of record, are quite common. Armed with this agreement, which is cheaper than an insurance policy, a bank is prepared to place the loss where it should rightly fall. No loss of respect or confidence is suffered for insisting upon this right. On the contrary, such insistence is giving the stockholders a square deal, and the bank can never be accused of robbing Peter to pay Paul. So much for the necessity and advisability of adopting such agreement.

As to what the agreement really is, we will again refer to the A. B. A. standard form, which has been printed and published throughout the land many times. It reads as follows:

"In receiving items for deposit or collection, this bank acts only as depositor's collecting agent and assumes no responsibility beyond the exercise of due care. All items are credited subject to final payment in cash or solvent credits. This bank will not be liable for default or negligence of its duly selected correspondents nor for losses in transit, and each correspondent so selected shall not be liable except for its own negligence. This bank or its correspondents may send items, directly or indirectly, to any bank including the payor, and accept its draft or credit as conditional payment in lieu of cash; it may charge back any item at any time before final payment whether returned or not, also any item drawn on this bank not good at close of business on day deposited."

A Law in Minnesota

IT is interesting to note that the above agreement has been enacted into law in the state of Minnesota.

Having decided upon the use of the collection agreement, many requests have been made by bankers and some lawyers asking for suggestions as to where the agreement should be printed on bank literature and how used. To this request answers have been given along these lines:

"It is essential to bind the depositor, that the agreement be assented to by him. Where printed on signature cards or other forms signed by the depositor, it is unquestionably a binding agreement; where printed on unsigned forms, it is necessary that the depositor's knowledge and assent be shown. While the courts generally presume such assent, there are cases where the depositor has denied knowledge, which hold that the depositor's attention must be particularly called to the agreement. It is, therefore, desirable, if possible, that the depositor's signature be obtained. The standard form may be printed on deposit slips, signature cards, advice tickets, passbooks, acknowledgments, receipts and other forms. Some banks feel that, if the depositor has signed the agreement printed on the signature card, it is unnecessary or even misleading to have the same agreement printed in passbooks, or deposit slips or other forms, but it should be understood that such duplication of printing, apart from the matter of proof, is an advantage to the depositor insofar as it makes him familiar with the terms of the contract under which he is bound."

Since the above suggestions have been given we have always been eager to discover any new pronouncements on this matter by the courts, the subject being one upon which there is dearth of authority. The recent decision of the Supreme Court of South Carolina (Ryan v. Columbia National Bank) is most helpful in throwing light on the problem. The court held that the printing of a collection agreement on a deposit slip is not conclusive of a binding agreement between a bank and its depositor. The question presented was whether a verdict should be directed on the basis that the collection agreement was binding as a matter of law. The court said:

"To charge him with implied assent, some circumstances beyond the mere presence of the stipulation on the deposit slip should be presented, as for instance, his knowledge that it was there, his continual use of the slip form, and his settlements with the bank in conformity with the stipulation and others."

"It would be a simple matter, as is frequently done by some banks, to obtain express assent of the depositor to such a stipulation. If it does not do that, it takes the chance of establishing before a jury the depositor's implied assent to a stipulation which reverses the incidents of the relation between the parties established by law. We are of the opinion that the existence of an implied assent to the stipulation was a question of fact."

Implied Consent

EMBODIED in the above opinion are very practical suggestions of which banks may well take note. Banks are not prone to accost old customers to obtain from them signatures to an agreement. Failing to secure such signatures, they may take comfort in this decision, which holds that the continued use of a deposit slip with knowledge that it bears a stipulation is a circumstance which if proved to the satisfaction of the jury will charge him with implied consent.

It is also pointed out that the depositor's settlements with the bank in conformity with such stipulation indicates implied consent. Deposit slip clauses are so common to the banking world that this decision is looked upon as a valuable contribution to a better understanding of their legal effect.

The adoption of a proper agreement is encouraged by the courts, which is sufficient answer to those who through a mistaken belief relieve the depositor of all responsibility. It is to be hoped that banks and their counsel who have heretofore paid little attention to this important matter will study it and determine upon the necessity and advisability of adopting the A. B. A. standard form, and, furthermore, upon the practical method of enforcing this form as a binding agreement upon all depositors.

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Administrative Features of New Revenue Act

(Continued from page 967)

at the time the return was made or at the time of the termination of its existence, or (2) under any ruling of the Commissioner or any duly authorized officer of the Bureau of Internal Revenue applicable to any of such years, and interpretative of any provision of the Revenue Act of 1918, 1921, or 1924, which had not been reversed or revoked prior to the time the return was made, or under any such ruling made after the return was filed which had not been reversed or revoked prior to the time of the termination of the taxpayer's existence.

(b) For the purpose of the Revenue Act of 1926 and prior Revenue Acts, a trust shall, at the option of the trustee exercised within one year after the enactment of this Act, be considered as a trust the income of which is taxable whether distributed or not to the beneficiaries, and not as an association, if such trust (1) had a single trustee, and (2) was created and operated for the sole purpose of liquidating real property as a single venture (with such powers of administration as are incidental thereto, including the acquisition, improvement, conservation, division, and sale of such property), distributing the proceeds therefrom in due course to or for the benefit of the beneficiaries, and discharging indebtedness secured by the trust property, and (3) has not made a return for the taxable year as an association.

From the Report of the Senate Committee on Finance we quote:

"It was the practice in some states, antedating even the 1913 Act, to subdivide and sell real estate through the agency of a trustee in the manner outlined in section 704 (b). Under the construction placed on prior laws by the department and by some of the courts such organizations may be taxable as associations or corporations rather than as trusts. In many cases the trust has long since terminated, the trust funds have been distributed, and if the trustee is held liable for a corporation tax, there will be no means by which reimbursement from the beneficiaries can now be obtained. In all of these cases the venture has been taxed as a trust under former departmental rulings and such tax has been paid.

"In order to adjust the matter on a reasonably equitable basis, section 704 (b) provides that any trust which comes within the several limits and conditions in that subsection shall be taxed as a trust and not as an association or corporation."

Under Section 704 as finally passed it is made certain that the amounts will be taxable to the beneficiaries whether or not such amounts are actually distributed, and whether or not such amounts are distributable, to the beneficiaries.

Addenda

In addition to the amendments above referred to, which have special interest to members concerned with the administration of trusts, a line will be added to record that the new law reduces the tax on corporations from 13½ to 12 per cent, and in the case of domestic corporations with net income of $25,000 or less, the specific exemption for 1928 and subsequent years is $3,000 instead of $2,000. The reduction of the tax on corporation income was urged by resolution of the American Bankers Association, adopted at the Houston convention. The following special matters are also to be noted:

Publicity of Income Tax Returns

4. The Senate on May 18 voted into the Revenue bill an amendment introduced by Senator Norris for publicity of income tax returns. The vote was small, being only 27 to 19. The amendment provided that such returns "shall be open for examination and inspection as other public records under the same rules and regulations as may govern the examination of public documents generally." The American Bankers Association, as well as other organizations, urged the reconsideration and elimination of this amendment but it was contained in the bill as passed by the Senate. The conferees, however, rejected this amendment and the Senate agreed to the action of the conferees.

Bankers' Acceptances

5. The new tax bill contains an exemption of income derived by foreign central banks of issue from investments in American bankers' acceptances. It was hoped by the Acceptance Committee of the American Bankers Association that this exemption would also be made to apply to such income of all alien investors; but the exemption was not further extended. The following identical language contained in the reports respectively of the House Ways and Means Committee and the Senate Committee on Finance fully explains the purpose and effect of the amendment:

"Section 119 of the House bill is the same as section 217 of the Revenue Act of 1926, except for the provision (sec. 119 (a) (1) (C) treating the income derived by a foreign central bank of issue from banker's acceptance as income from sources without the United States. Inasmuch as a foreign central bank of issue is a foreign corporation, the effect of the provision is (under sec. 231 (a) of the bill—which is taken from sec. 233 (b) of the 1926 act) to exempt such income from taxation. Generally speaking, the chief ways in which a foreign bank of issue employs its surplus funds in the United States are (1) on deposit with banks; (2) invested in short-time Government securities; and (3) in bankers' acceptances. At the present time the law exempts from taxation income derived from the first two sources (secs. 233, 217, and 236 of the 1926 act), but taxes income derived from bankers' acceptances. Foreign banks of issue with surplus funds to invest must seek the most liquid short-time investments available. The present law tends to keep foreign funds out of our market and to force American merchants to finance their transactions abroad rather than through the dollar acceptance. This handicap on the free development of our dollar acceptance market should be removed. It should be pointed out, however, that the provision is applicable only to a central bank of issue and is not applicable to investments by other foreign corporations or non-resident individuals."

Farm Situation As Seen by Bankers

WITH the nation's attention centered on the fight made in Congress and now carried to the political conventions for some form of relief for the farmer, the Guaranty Trust Company of New York and the National Bank of Commerce in New York have just issued surveys of agricultural conditions that are particularly interesting.

"The position of agriculture is distinctly better than a year ago, or, for that matter, than at any other time in many years," says the Guaranty Trust bulletin. "The chief factors in the farming situation at present are the strong background provided by the recovery of purchasing power in 1927 and the comparatively high prices now prevailing in the markets for leading farm products. It is true that these prices are due in some cases to conspicuously unfavorable crop prospects. In general, however, prices are more significant influences than crop yields in determining the volume of aggregate farm earnings, so that a small crop, often as not, brings greater returns than a large one.

"Purchasing power of winter wheat producers will be curtailed this season by the unusually poor condition of the crop and the large acreages abandoned, but the reduction will be partially offset by the higher prices received. It is still too early to predict the outcome of the spring wheat harvest, but it is clear that planting is being greatly stimulated by the winter wheat situation. The price of cotton is about 35 per cent higher than a year ago, and the price of corn 20 per cent higher, while oats, rye, and other products have also advanced sharply in the last twelve months. Cattle prices have been at high levels for some time, while the acute weakness of hog prices in the last year has been followed by a strong recovery in recent weeks."

The Corn Belt's Position

E. M. MILLER, statistician of the National Bank of Commerce, in an article in the *Commerce Monthly* on "The Position of the Corn Belt: Its Relation to the Domestic and International Markets," says that the export trade of this section's products is meeting severe competition in the international market, and if the agriculture of the region is to survive, the tariffs on its products must be maintained at effective rates. "For, it is so obvious," he continues, "as to require no demonstration that an agriculture carried on on old lands, with its costs determined on a high internal price level, cannot without protection compete with that of virgin lands in other countries.

"So far as the Corn Belt produces for the protected domestic market, that is, those commodities of which the export surpluses are negligible and imports are unimportant, tariffs being effective in keeping them out, the position of the farmers there is as good as that of producers in other industries, always assuming, of course, that other things, such as productivity of labor, are equal. To the extent to which Corn Belt farmers produce for the international market, they are at a serious disadvantage in respect to costs.

"The major problem of the region in relation to its international market is in the export of lard and pork products. It is still true that this territory is without a peer from the standpoint of suitability for the growing of corn, but it does not follow that its swine producers are in a sufficiently advantageous position to enable them to continue to export at a profit in larger volume than before the World War.

Foreign Competition

"ARGENTINA, South Africa and some other parts of the African Continent are expanding their corn crops at a fairly rapid rate, but at present they have no important swine industries. Whatever competition these regions now offer to American pork products is through the addition which their exports of corn make to the supply of feed grains in Europe. Despite disadvantageous locations with regard to shipping, it seems certain that this indirect form of competition will increase, while there is always the possibility that hog production may expand."

Analyzing Bank Income and Expenses

(Continued from page 942)

mental and departmental banks. Since even the former type of bank occasionally obtains some income from other than strictly deposit business, the separation into the two groups was made somewhat arbitrarily according to this rule: All banks, approximately 98 per cent of whose income was derived from commercial and savings deposit banking and miscellaneous small items were placed in one group, designated as Group A, and all which reported an income of at least 2 per cent from sources other than commercial and savings deposit banking (namely foreign exchange, trust services and safe deposit vaults) were placed in Group B.

The aggregate of income and expenses, and net current earnings for the forty-eight reporting banks, segregated into the two groups of non-departmental and departmental banks respectively, was as follows:

H and O, practically the same coincidence exists between the ratios for the two groups of banks and for the total number. Now, the proportion of time to gross deposits for these particular reporting banks (computed on the basis of the average for 1926) happens to be 50.4 per cent for the non-departmental banks and only 39.7 per cent for the departmental banks. For this reason we should expect the group of non-departmental banks (that is, those doing a deposit banking business almost exclusively, with little or no income from foreign exchange, trust department or safe deposit vaults), to show a higher percentage of expense on account of interest paid than the departmental banks which happen to have a substantially lower proportion of savings and time deposits.

The above percentages substantiate and confirm this expectation, indicating as they

	Group A 21 Non-Departmental Banks	Group B 27 Departmental Banks	Total
Gross current income from banking operations	$7,228,879	$10,357,768	$17,586,647
Total current expenses of banking operations	5,864,129	8,232,346	14,096,475
Net current earnings from banking operations	$1,364,750	$2,125,422	$3,490,172
Net current earnings from operation of bank buildings	127,336	161,689	289,025
Total, net current earnings	$1,492,086	$2,287,111	$3,779,197
From these actual figures the following percentages were computed:			
A. Per cent of gross current income from banking operations absorbed by current expenses	81.1	79.5	80.2
B. Per cent of gross current income from banking operations remaining for net current earnings from banking operations	18.9	20.5	19.8
	100.0	100.0	100.0
C. Per cent of total net current earnings derived from banking operations	91.5	92.9	92.4
D. Per cent of total net current earnings derived from operation of bank buildings	8.5	7.1	7.6
	100.0	100.0	100.0

It will be observed that the margin of difference in these percentages as between the two types of banks and as between each separately and the total is very slight. Coming now to another set of percentages there is shown the proportion of gross current income from banking operations absorbed by the various principal items of operating expenses:

It will be noted from the above that with the exception of the items E, P and F, and do that the interest expense for the non-departmental group is 3.1 per cent higher than for the departmental group. We should also expect that group of banks whose proportion of time to gross deposits is the greatest, to show a smaller ratio of expense on account of salaries for the reason that the lower rate of turnover for time deposits would presumably require a smaller amount of clerical help than would be the case in banks where the checking activity is

Per cent of gross current income from banking operations, absorbed by:	Group A 21 Non-Departmental Banks	Group B 27 Departmental Banks	Total
E. Total interest paid	45.3	42.2	43.5
Operating expenses (exc. of interest):			
F. Salaries and services (incl. directors' fees but excl. of legal fees and chauffeurs' wages)	17.8	19.9	19.0
G. Occupancy	5.7	5.7	5.7
H. Taxes other than real estate	4.3	3.6	3.9
I. Insurance	.8	.7	.8
J. Printing and stationery	2.1	2.1	2.1
K. Telephone and telegraph	.4	.3	.3
L. Postage and express	.6	.7	.7
M. Publicity and expansion	1.2	1.0	1.1
N. Furnishings, equipment and fixtures	1.1	1.0	1.0
O. All other, incl. legal fees and expenses, books and periodicals, delivery service, travel and other items not specified	1.8	2.3	2.1
P. Total, operating expenses	35.8	37.3	36.7
Q. Total expenses (E plus P)	81.1	79.5	80.2
R. Net current earnings from banking operations (same as B)	18.9	20.5	19.8
	100.0	100.0	100.0

greater by virtue of a greater number of demand deposits. This expectation is also confirmed by the above table from which it appears that the salary expense for the non-departmental banks, whose proportion of time to gross deposits is greatest, is 2.1 per cent less than is shown by the departmental banks for the corresponding item. In other words, it is apparent that interest paid (Percentage E) and its coordinate, "all other operating expenses" taken as a whole (Percentage P), and salaries (Percentage F) reflect directly the element of time deposits so that the proportion of this class of deposits may be expected to influence the percentages.

Percentages H and O seem to show, on the basis of the returns from the forty-eight banks, what might be regarded as a substantial variation for the two groups of banks. But this difference cannot properly be attributed to the fact that the two groups represent different types of banks. That is to say, it cannot be concluded on this evidence that the non-departmental banks as a class, should normally be expected to show a higher percentage of expense on account of taxes and a lower on account of "All other expenses" than the departmental banks, for the reason that it happened that in the year 1926 three of the reporting banks in the non-departmental group were burdened with an apparently abnormal tax expense, while on the other hand the high ratio of the "all other" expense item for the departmental group was due to unusually heavy legal fees paid by a single bank in this group. With respect to the other percentages indicated above (*i.e.* G, I, and J to N inclusive) it will be noted that the coincidence between the percentages of the two groups is close.

The conclusion appears justified, therefore, that the classification of these particular forty-eight banks into the two groups, non-departmental and departmental, is without significance, since (1) the majority of the expense percentages are substantially the same in each group, and (2) whenever the percentages do differ materially, the reason for the variation can be traced directly to causes arising from circumstances which have little or no bearing on the classification itself. Whether, however, these coincidences in the percentages between the two groups of banks would be maintained, or would show a significant degree of divergence, were we able to base the computation upon returns from a larger and therefore more representative number of banks, is of course something that can only be determined when more comprehensive data than we have at present are available for analysis.

One very important aspect of this subject, as above emphasized, is the hope that ultimately there may be evolved from the simple classification used in the present schedule, which calls only for aggregate figures for an institution as a whole, a classification of income and expenses for departmental banks according to banking functions, so that the cost of each separate function may be arrived at. When that can be accomplished, far greater accuracy in comparisons between banks can be attained, because the banks can then be grouped wholly according to functions and functional percentages worked out.

The Question of Rent

VIRTUALLY the only part of our schedule which gave any trouble was that which provided for reporting the expense of occupancy. Of the forty-eight reporting banks, seven lease their quarters and for them it was a simple matter to enter the actual out-of-pocket expense for rent and other collateral expenses of occupancy, as the actual cost of occupancy. But for most of the remaining forty-one banks which occupied quarters in their own buildings—some of them occupying the entire building and some leasing a portion to other tenants and some having branches which they occupied under lease while owning the head office building—the question of determining the cost of occupancy was not so simple.

Probably the management of none of these banks would deny (certainly not after giving some thought to the matter) that the expense of occupancy, which should of course include a proper depreciation charge, is a very important item of bank operating expenses, nor would it be maintained that this expense should not be taken into consideration on any sound principle of accounting, even though it may not have been the practice actually to make a rental charge for the bank's own quarters as a matter of bank bookkeeping. Obviously to ignore it altogether as a factor of operating expense and to set up the expense statement, either consciously or unconsciously, on the assumption that because the bank may own its own quarters it is under no expense on this account and is getting its rent free, is to deceive one's self. And, the fact that when this is done it may make no difference in the final total net profits of the institution is but a begging of the question, for banks are presumably in business for banking purposes and not for the profits they can make out of real estate. That is to say, the extent that they engage in real estate operations, whose principal object is to enable them to occupy quarters of their own, is, or certainly should be, incidental to their real functions.

On the other hand, the fact that these operations are not entered upon primarily because of the profit that may accrue from them, or for the direct and conscious purpose of adding to banking income, does not imply that the space in buildings erected by banks for their own occupancy should be rented—either exclusively or only in part to themselves—at anything less than a figure which will represent a fair return on the investment. In other words, a bank ought to charge itself rental for the space it occupies in its own building based upon the fair rental value of the quarters occupied and such as will allow itself a fair profit just the same as it ought to do for quarters in the same building which may be available for leasing to other tenants. To do this is not only merely good business but it is necessary in order that the bank may have a clear idea of what its profits may be from the business for which it was organized, *i.e.* banking, and obviously it cannot know to what extent its banking business is profitable, or whether it is profitable at all, if there is no segregation of what are strictly earnings or losses on account of the operation of the building, from earnings or losses arising from banking transactions. And,

certainly it would seem that any bank ought to want to know how much money it is making out of banking. If 75 per cent of a bank's net profits were in reality due to its building account and only 25 per cent to banking operations, such an institution might, it would seem, more properly be characterized a real estate enterprise than a bank.

A Neglected Principle

ALL of this will undoubtedly seem to many bankers to be laying unnecessary emphasis on a very rudimentary and rather obvious principle. Nevertheless, of the forty-one banks in the First Federal Reserve District which own their buildings and which made a return of income and expenses on our schedule, no less than twenty-seven, or 66 per cent, do not (or did not in 1926) charge themselves rent for quarters occupied in their own building. Moreover, in the case of the fourteen banks which did charge themselves with rental for quarters in their own building, the charge was clearly insufficient in at least seven instances. And there were numerous cases of banks which made a charge to tenants but not to themselves.

The result of revisions made by us in this part of the schedules, with the approval of the banks, was to transform what had been returned in numerous instances as building operating losses into profits. Indeed, if the returns of all the forty-eight reporting banks had been accepted at face value they would have shown an aggregate loss on their building operating account of $93,689, whereas when this section of the schedule had been duly revised, aggregate net earnings of $289,025 on account of the operation of the buildings was indicated.

It is, however, only fair to say that in many cases failure on the part of banks owning their quarters to charge themselves rent has doubtless hitherto been due not so much to real indifference or lack of appreciation of the importance of the subject as to the difficulty of determining a proper and fair basis for such a charge, so that in the absence of an accepted standard nothing at all has been done about it.

Many questions will at once arise when a bank owning its building undertakes to determine what it should charge itself for rental. Here are a few of them: Should it charge itself on the basis of square feet of floor space occupied, and if so should the rate be the same for the bank quarters as for space leased to other tenants? In the case of space available for other tenants, how should the losses on account of vacancies be distributed—should they be charged up wholly to the tenants in fixing the prices for them, or borne partly by the bank? If a different and higher rental value is deemed fair for the bank's ground floor quarters than for space on other floors, how should this excess value be determined? Should it be merely on the basis of what the lessees of mercantile property in the neighborhood have to pay, or should an arbitrary amount be charged, representing somebody's best guess as to the superior "rental value" of banking quarters which are apt to be more ornate and spacious and generally more impressive in appearance than is customary in any other line of private business? Should cubic feet of quarters occupied be taken into

account as well as, or instead of, floor space? Indeed, is the prevailing rate for rentals of other mercantile property in the community a fair criterion at all? Or, should a bank pay a rental for quarters occupied (and charge itself correspondingly when it occupies its own quarters), an amount based on its earning power, like any business which charges all that the traffic (the consumer) will bear? But this whole problem as to what a bank ought to pay for rent, meaning by that, on what basis the rental value of the property may properly and fairly be fixed, would seem to be in reality a problem in real estate economics rather than one of banking.

A Simple Method

PENDING, however, the results of further study, it has been found possible by a very simple method to arrive at a rental value figure which, if not exactly scientific, nevertheless reflects an amount which it is believed a bank may in most cases, with a considerable appearance of fairness, charge itself for quarters occupied in its own building. This is to assume that the expense of operating and maintaining the building (including taxes, insurance, depreciation, wages of building employees, and other collateral expenses of occupancy) represents approximately two-thirds of its rental value. By this method of computation the total rental value of the building less the amounts received for rentals to other tenants, is the amount which the bank may fairly charge itself as rent for its own quarters; if there are no other tenants, the bank would naturally charge itself with the whole rental value of the building, or 50 per cent more than the expense of maintenance. For example, if the cost of maintenance is $20,000, the rental value of the building would be put at $30,000. This is the rule which we applied in our study in the case of all the banks that did not, according to their returns, make a definite charge against themselves for rent.

But, in fairness to the reporting banks, this was not done in any instance without first consulting the banks as to the reasonableness in their judgment of the estimated rental value, for it was desired to avoid arbitrarily altering the schedules as filed, or to seem to do so merely in accordance with a preconceived theory, if the amount suggested as a rental charge in accordance with the formula here described did not appeal to the individual bank as a proper one. However, with very few exceptions, the amount suggested was accepted as a fair and reasonable one and, furthermore, the rental value of the building as thus determined seemed to reflect in most cases a fair, or at least a conservative, rate of return on the investment.

Money in Circulation.

Money in circulation on April 30, 1928, was $4,748,458,057, against $4,890,607,185 on April 30, 1927. The per capita this year was $40.20 against $41.95 in 1927. The high per capita circulation in the Treasury's history was on Oct. 31, 1920, when it was $53.60. On Jan. 1, 1879, it was $16.92.

What Chicago Learned From its Trade Census

(*Continued from page* 954)

eaten up by overhead as they turn their stocks rapidly or slowly.

The Automotive Turnover

FOR automotive retailers the average turnover is 9.8 times a year. The detailed figures, however, show that the automobile dealers proper turn their stock 11.6 times a year while the accessory shops average only 5.8 and the motorcycle and bicycle concerns 4.6.

While on the subject of the sale of automobiles, one of the most interesting distribution items of the moment, it is interesting to note that Chicago wholesalers in 1926—the best year to date in the automobile industry—did a gross business of $138,498,100 in cars, trucks and tractors. Accessory business, in addition, ran to $104,923,800. At retail the gross sales of the 457 outlets for automobiles were $100,743,700 while those for 1408 accessory shops came to $38,894,900.

Altogether, the retail value of automobile and accessory sales in the area came to 7.1 per cent of the total retail sales volume of slightly less than $2,000,000,000.

Another luxury that has come into no little prominence in the last few years and now has a place in a big percentage of American homes—radio—contributed $11,044,000 to the total retail sales of the area in 1926. This item comprises 4.3 per cent of the total spent for furniture during the period and, when it is considered that the entire outlay for furniture constituted only 13.6 per cent of the aggregate retail sales for the year, radio really takes a back seat.

In the detailed figures on furniture, house furnishings take up 34.0 per cent of the total with furniture adding 30.6 per cent.

The scope of the report, its purposes and methods, the reasons and events behind its compilation, and its significance as a whole rather than as applied to particular cases provide an interesting story in themselves.

The survey was suggested as feasible through the important studies conducted for years by the United States Bureau of the Census on manufactures. These have been compiled every two years and were known to present a complete picture of that type of business. Yet nothing of the sort had even been done in the merchandising line.

The merchandiser has had very limited information on the volume of goods sold in his classification from year to year, whether the business is wholesale or retail. He has known nothing of the number of people employed in his and associated lines and even less of the average salaries received. He has had only his own figures to provide him with a standard by which to judge the efficiency of any given employee or salesman. The Chicago study of the situation was launched coincidentally with similar analyses in ten other cities to meet these needs.

The completed survey covers the findings on wholesale and retail operations of 48,521 establishments within the corporate limits of the city of Chicago for the year 1926. Of these, 7297 are wholesale stores

and 41,224 retail. The tabulations include sales of seventy-nine different kinds of merchandise dealt in by sixty-one different types of establishments.

The Chicago Association of Commerce is proud of the tremendous volume of wholesale trade represented in the figures for 1926. The wholesale volume for the year closely approximated $5,000,000,000.

In transacting this business, the wholesale establishments of the city gave employment to 122,181 persons while firm members and proprietors involved totaled 4474, an aggregate of 126,655. The salaries and wages of employees, exclusive of compensation or earnings of the proprietors, totaled $258,068,800.

The average inventory for the year at cost for the 7297 wholesale establishments was $281,411,400 while at the close of the year the audit revealed a value of $264,950,000 on merchandise on the shelves. The average turnover, based on total sales of $4,844,761,000, was 17.2 times a year.

Turning to the retail figures, the sales for the year fell just short of $2,000,000,000, indicating that the gross value of the wholesale business for Chicago is approximately two and one-half times its actual consumption without allowing for the disparity between wholesale and retail prices.

There are 41,224 retail establishments covered by the census which give employment to 183,217 persons in addition to 39,181 firm members and employees, an aggregate of 222,398. The salaries and wages of the employees amounted to $263,126,600 for the year. Average inventories totaled $269,751,000.

Another interesting fact developed by the survey is the relation of the chain store sales to the gross retail business. For the year this type of store, which included 6429 establishments, did a business valued at $735,861,300 against sales of $1,245,459,100 for the 34,795 independently owned retail concerns listed.

Aside from the magnitude of the gross business of the wholesale and retail establishments of the city, amounting to close to $7,000,000,000, the total number of employees and proprietors engaged in these lines is significant. There are more than 348,000 persons so employed which is in excess of 10 per cent of the entire population of the city. The annual payroll for the merchandising groups amounts to upwards of $521,000,000.

REPORT OF THE INDUSTRIAL RESOURCES OF OKLAHOMA. Prepared for United States Senator W. B. Pine, of Oklahoma, by Lockwood, Greene & Co., New York.

This book reviews from an expert engineering standpoint all available information about Oklahoma on subjects related to industrial development, as well as interesting data on the state's history, geography, topography, and climate.

A new means of transportation is the advance guard of a new era of prosperity. The new means develops its own opportunities and usually supplements and complements the old. We are entering upon a new phase of transportation. If the rule holds good, then the development of air lines should generously add to national prosperity.

Regional Clearing House

(*Continued from page 957*)

ing house association methods, for these reasons:

First, it saves the duplication of expense in employing special examiners, making the plan easy to adopt by states.

Second, it becomes absolutely uniform throughout a state, taking in all banks, both good and bad, as contrasted with the city clearing house plan which takes in only such banks that can qualify. The Nebraska plan takes them as they are, hoping to make them better.

Third, it has the advantage over a clearing house association such as Chicago's in that it escapes responsibility for failures as the examinations are in legal hands, yet it uses all its powers to prevent failures and improve practices. The association becomes effective without being weakened with the blame for its imperfections as would be the case if it were patterned after the Chicago plan.

Fourth, the results of the Chicago plan can be gradually approached through regular, legal channels under the Nebraska plan and made uniformly available whereas the Chicago plan never could be adopted to the country as a whole.

Other Advantages

THERE are other advantages in the regional clearing house association idea. Take, for example, the Nebraska plan, where a model district has been set up for the purpose of demonstrating its practicability. A group of five counties were taken for the experiment, with Fremont, a city of 15,000 people, the geographical center of the district. There are in these five counties approximately sixty state banks in cities and villages running all the way from 200 to 15,000 in population. There are also nine national banks in this territory. The banks of the territory organized a voluntary clearing house association, and some forty-eight of the state banks and two of the nationals voluntarily paid their dues and became members. No particular effort has been made to have them all join, as full membership is not essential, though desirable. The plan depends on legal authorities for examinations, so we get the desired results so far as examinations go, whether all banks are members of the association or not, and the moral force of the association is effective without a 100 per cent membership.

The state examiner assigned to our sixty banks is doing his work very thoroughly, is very enthusiastic over it, and has a sense of responsibility that has not heretofore characterized state bank examiners. The association furnishes him an office and supplies him with such help as he may need for preparation of his credit bureau files.

The association has its regular quarterly round-table meetings, devoted to the study of better banking practices, and, in addition, the directors meet monthly or as often as is necessary to consider problems that come within their jurisdiction.

The association has recently terminated a very vigorous campaign, which was state-wide, against a certain policy that had a tendency to stimulate the granting of additional charters for new banks conditioned upon the sale of assets of banks that were being liquidated. This policy was very detrimental to the best interests of the state, and it took a state-wide campaign to change it, but this association succeeded in doing so and thereby rendered a most effective service to the state as well as to the banks.

The association also has dealt with three bank failures since it was organized last September, and succeeded in rendering most effective service, which was recognized not

only by the State Banking Department but by the bankers themselves.

In one case the association succeeded in having the losses cleared out of a bank that has been closed, and the bank reopened, saving the creditors at least $100,000 and preventing liquidation, which would have been a disaster to the community and a corresponding loss of public confidence in banks in general.

In the other two cases it set up moral standards and brought about a united action in the public interests that was most beneficial to the community.

The association is determined that no more banks shall be chartered where the needs of the community do not require them, and is conducting a most vigorous campaign of protest along this line, which already in two cases has proved most effective. In fact, the association has established this policy so thoroughly that the burden of getting a charter is so great that few will undertake it in the future unless a new bank is actually needed.

Therefore, as a result of the experience thus far of the First Nebraska Regional Clearing House Association, it may be said:

First, that it has justified its existence many times over by crystallizing public opinion as well as banking opinion along lines of safe and sane banking methods.

Second, the association has greatly improved the banking practices of its members through its quarterly round-table meetings, which have enabled them to work in harmony in stabilizing interest rates and in protecting the public against unfair practices to an extent that they had never heretofore been able to do.

Since the experiment has been under way, thousands of bankers throughout the United States have been watching it with interest and considering it with a view of urging its adoption in other states. Some states are taking it up, and commissioners of state banking departments are considering plans for its adoption on a state-wide scale. Its successful introduction is so simple that one can only marvel that it was not undertaken long ago.

Diary of a Trust Officer

(*Continued from page* 949)

pany as a buffer and these designing friends have long since learned that we will not consider their propositions. So Miss Sullivan is enjoying the sunset of her life secure in the knowledge that her trust is now earning enough to provide for her the necessities and even luxuries of life, and that as long as she lives she will be free from want and poverty.

Wholesale Prices Rise

Wholesale commodity prices have now been rising for three months, according to the indices of the National Bank of Commerce in New York. A further advance of 1.3 points in the index of May reflects the influence of unfavorable spring weather on the crop outlook, says the bank's Commerce Monthly, but there is something more fundamental involved, it adds. Since February the majority of price changes have been upward, and declines, except in special cases, have been small. A broad upward movement of this sort, the Commerce Monthly holds, is evidence of correction in the international supply and demand situation.

Installment Credit Need

(*Continued from page* 964)

play no part. These goods are not in any sense producer goods. They will not be turned over in a manufacturing or a mercantile cycle which will bring back the money paid for them, and expended upon them, plus a profit. They are not regenerative of income or reproductive goods in any sense. They are goods that at once will begin to be consumed. The most striking example perhaps is the automobile, most widely sold on installment selling plans. Generally speaking, automobiles must be considered consumers' goods, subject to rapid depreciation. Ordinarily, when they are sold on the ten or twelve months payment plan, from thirty to fifty per cent or more of their value will have disappeared through depreciation before they are paid for. There is no thought, therefore, that consumers' goods create income to pay back credit extended for them.

Under what conditions is business justified in extending credit of this sort?

Let us approach the development of such a formula from the point of view of a laboratory analysis of an individual consumer. Suppose we consider a man with an income of $5,000 a year. Let us assume that he has something of an ideal system of personal financial management. In these days of stable prices for the necessaries of life, he can budget his food, lighting, heating, clothing bills and educational expenses for his children for a year ahead at a fairly definite sum. His rent, if he is a large metropolitan city dweller and probably cannot do otherwise than rent an apartment, will be another definite sum; or, if he is a town or suburban dweller and owns his home, his carrying and amortization charges and interest on his investment probably should about equal approximately the same sum, the chief advantage in owning over renting being the cumulative savings in the form of the increases in his equity acquired by his amortization payments. Next there are what we might call his protective payments—that is, premiums on life insurance for the protection of his family; accident, health and fire insurance; possibly also endowment or provision for an annuity to help care for himself and wife when the family cycle is approaching its end and the children have become self-sustaining. There also should be his annual savings allocations; arbitrarily, this should represent at least ten per cent of his income, creating funds against emergencies or, if not used or reduced for this purpose during the period of his productive years, creating an addition to his retirement funds at the end of his working life. Finally, there should be provision for a certain amount of pleasure and cultural expenditures for himself and family. Assume that this schedule of payments preempts $4,500 of his $5,000 income, leaving clear a surplus of $500.

Possibly we may assume that this $500 surplus represents a fair amount for which, at the beginning of any year, he may obligate himself for installment purchases during the coming year—that is, for the purchase of consumers' goods of which he desires immediate delivery and utilization but cannot pay for in a lump sum.

Each Case on Sound Lines

WE therefore may set up tentatively this question: Is not the consumer and is not the merchant justified in creating consumer credit in an amount as indicated in some sort of budgeted scheme as the foregoing? We may be justified in assuming it to be true that, if each individual case of installment selling were constructed along some such sound lines, the total consumer credit structure of the nation as a whole will be a sound credit structure serving a valuable economic purpose.

There is the question of reserves or security against such credit, for there may again come a day of unemployment. The question of security and reserves in the field of producer credit has been well formulated. The security underlying producer credit, even when it is considered an unsecured loan, is the ascertained character, capacity and capital of the borrower; and in the case of secured credits it is some such tangible asset as securities, warehouse receipts on the goods purchased with the loan, mortgages or acceptances.

In the case of consumer credit, the goods themselves which are recapturable do not present good security since they rapidly disappear or depreciate; we do not feel that the recapture principle is sufficient protection, even though theoretically amortization and completion of payments do run more rapidly than the consumption of the goods involved. On a broad scale this is hardly a sound economic principle, for the reason that there are uncontrolable factors involving the rapidity of consumption, and furthermore the process of recapture is economically wasteful.

What Additional Security?

WHAT additional security, therefore, should be required? May we not consider whether a certain percentage earmarked from the consuming borrower's savings should not be allocated as a reserve to further buttress the security of consumer credit? This might be, possibly, in the form of a lien on his savings or on the loan value of his life insurance, for only to those so positioned should be granted consumer credit. This is merely offered as a point to consider and not as a definite proposal.

The American Bankers Association has set up an Educational Foundation to help finance students in economics as practically applied to banking. It is our thought that students of this kind should be better qualified to devote themselves to just such problems as this—the development of sound scientific business formulas for such processes as are presently in something of a twilight zone, as is now this credit question of installment selling.

Saving Independent Banks

(*Continued from page* 931)

rendered. The public is more interested in sound banks than in free service. This is the psychological time for establishing such charges, and most banks have already done so. Interest rates paid on time deposits should be reduced in many banks. This will increase the earnings. Can anyone give a good reason why banks should pay 4 per cent and invest money in bonds paying 3½ per cent? A great many banks are doing this.

Bankers should be bankers, and should not be interested in so many other lines that they cannot pass disinterestedly on loans. They should not use the depositors' money for their own investments. This also applies in a lesser degree to the directors. Most banks where officers have used the bank's money to excess have already closed.

The credit files of banks should have up-to-date property statements for all unsecured loans. We insist on such statements for all unsecured loans of $500 or more.

DIRECTORS must actually direct, and the courts are holding them responsible for failure to do their duty. Directors' meetings must be held at least monthly. The officers can get more help from the directors by taking them completely into their confidence and by consulting them freely and by insisting that they perform their duties. A bank with a strong, active board of directors is usually a good bank.

Do not buy new accounts by making undesirable loans to get them. Do not buy paper because the interest rates are high or there is a discount. Losses on such paper in the past have been much more than the actual earnings and discounts received.

The law now forbids the taking of second mortgages, except to secure previous debts. About 90 per cent of all of the other real estate held by banks was acquired through second mortgages. In many cases the banks would have been much better off to have taken a loss at the time, instead of taking over the property. The depositors' money should be invested in the best first securities and not in the seconds. Split mortgages, or small parts of large mortgage bond issues have proved especially undesirable, if in default, because it is usually impossible to get all of those interested to pay their part of the taxes, foreclosure expenses, etc.

Many banks should increase their capital, as this is an added margin of safety to the depositors. Dividends should not be paid until all doubtful assets are removed, and until a good surplus has been built up. It is a nice feeling to have sufficient surplus and undivided profits to take care of losses, if they occur, without being obliged to pay in assessments.

Losses should be charged off, as they develop, and should not be allowed to accumulate with the hope that they can be removed with future earnings. Bad practices should be nipped in the bud.

For Better Banking

SOME of the other steps that must be taken to insure safer and saner independent banking may be summarized as follows:

All banks should have a secondary reserve, which is liquid and on which money can be raised quickly, if necessary.

Banks should not borrow money unless absolutely necessary, and should not make many new loans until their bills payable are eliminated.

"Other real estate" is a frozen and undesirable asset to have in banks. Every effort should be made to sell the same and at least 10 per cent should be charged off each year. Taxes on other real estate must be paid, or the other real estate cannot be carried as an asset.

Ten per cent should be charged off each year for depreciation on the furniture and fixtures account.

All property and papers, belonging to the bank, must be in the name of the bank, and, when necessary, recorded.

The borrowers should be educated to the fact that their paper must be given attention when due. There is no excuse for the large amount of past due paper found in some banks.

The bank's statement must show every liability of the bank, direct, or contingent. The old practice of a few banks discounting notes without recourse and then giving an oral or written promise to protect or repurchase the notes, is now a violation of the law.

All bankers should take the examiners and the state banking department into their complete confidence. **The department and the examiners are provided to help the banks, not to embarrass them.**

Our independent banking system is now on trial. We must put our house in order. Much has already been done. We must finish the job. Let us cooperate and assist each other wherever it is possible to do so.

Payment of War Claims Under Way

(*Continued from page* 935)

ican claims in which awards have been made by the Tripartite Claims Commission.

Arbiter to Be Named

THE claims of the former enemy nationals are for the most part for the seizure by this country of ships and radio stations and for the use or appropriation of patents. The settlement act provides for the appointment of an arbiter to pass upon such claims, the Secretary of the Treasury to pay the awards fixed by such arbiter.

There is established in the Treasury Department the above-mentioned German special deposit account from which these awards will be paid. Congress already has appropriated $50,000,000 to pay claims for German ships, radio stations, patents, etc. If necessary, additional appropriations will be made up to a total of $100,000,000. The new law provides that the President of the United States shall make arrangements with Germany for the filing of additional claims before the Mixed Claims Commission, and since none have been received since 1923, it is expected there will be several thousand made now.

Only 50 per cent of each German award will be paid immediately. Payment of the balance will await the settlement of American claims against Germany in full. No awards to the German government or to any member of the former ruling family of Germany will be paid, but the amount of such awards will be credited upon the final payment due the United States from the German government and the funds thus accumulated will be used to satisfy the other awards made by the Mixed Claims Commission.

Sources of Funds

IN the German special deposit account in the United States Treasury there will be placed, in addition to the appropriations by Congress, the fund representing the 20 per cent of German property not returned at this time, the $25,000,000 of unallocated interest on German funds held by this country up to March 4, 1923, at which time our government was authorized to return interest due alien enemies, and the funds to be received under the Dawes Plan for payment of Mixed Claims Commission awards.

Should Germany, under future agreements which may be made, pay into the German special deposit account sufficient sums to liquidate all obligations and awards full payment can be made within a few years. Otherwise final payment will be delayed until the receipts under the Dawes Plan are sufficient to cover all deferred payments.

Payment of awards of the Mixed Claims Commission will require most of the funds to be placed in the German special deposit account. Such awards, as they are certified to the Secretary of the Treasury, will be paid as follows:

Deduction of one-half of one per cent for expenses of administration. Payment of awards on account of death of or personal injuries.

Payment of all awards in full which do not exceed $100,000.

Payment of 80 per cent of awards in excess of $100,000.

All awards to carry interest at the rate of 5 per cent.

When all awards are paid all property due German nationals will be transferred to them and the accounts closed.

The Tripartite Awards

THE manner of payment of the Austrian and Hungarian awards differs in one important detail from that applying to Germany. An arbiter will fix the amount of awards as in the case of Germany but no payments will be made by this country until the Austrian and Hungarian governments have deposited with the United States Treasury Department funds sufficient to pay all awards made to the United States and her nationals by the Tripartite Claims Commission. This country is ready to make immediate payments to Austrians and Hungarians when their governments shall have fulfilled their part of the agreement, for Congress already has appropriated $1,000,000 for such use.

An important provision of the settlement act is that no payment shall be made to United States nationals under it unless application therefor is made within two years after the date of the passage of the act,

in other words, on or before March 10, 1930. Claimants should remember that the fact that their claims have been allowed does not mean that they will receive their money without further action. It is absolutely imperative that formal application for the payment of the awards be made to the Secretary of the Treasury. Blank applications may be had from the Treasury Department, to be sworn to and returned to the Secretary.

Why Railroad Consolidation Lags

(*Continued from page* 961)

several adverse decisions although it has not been specifically mentioned and it is not one that should influence their judgment. It is one, however, that the stockholder of a system that takes over another system at a price per share for control much above the average of recent years and in excess of the known earnings and dividend return cannot fail to consider. It is pertinent to the situation not only in the group of southwestern lines that seek the privilege of consolidation but with the future of those eastern companies that have already committed themselves to high cost purchases of independent roads believed necessary to the rounding out of the four major trunk line systems.

One curious aspect of the Commission's attitude is that taken toward the method of obtaining control of one road by another. The Commission has let it be known that it does not approve of such purchases in the open market prior to its authorization, and it has denied two mergers that were under way mainly on this premise. While it may be poor business to bid up the price of a stock of a competing road and thus establish a basis of cost disproportionate to the benefits of the investment, it is certainly absurd to say that Mr. Van Sweringen or Mr. Loree or General Atterbury or Daniel Willard should announce to the world at large that they proposed to buy the Erie or the Lehigh Valley or the Wabash or the Western Maryland. What a nice little opportunity this would give to some of the hijackers in Wall Street. On the other hand, the Commission is well within its rights in invoking the aid of the Clayton Act in denying to certain railroad officials the privilege of sitting on the board of directors of competing roads and dominating their policies, as it has recently done in the case of the Wheeling & Lake Erie.

In the beginning of the movement toward railroad consolidations it was argued that these consolidations should be compulsory. Various roads within a given district were to be brought together into a kind of supersystem. Where service was duplicated this would be reduced. Instead of having three passenger trains of three competitive lines start from the same station at the same hour for some point 500 miles away, one, and possibly two, of these trains were to be annulled. The soliciting forces were to be reduced, repair shops and general offices at common points brought under one management and traffic routed over those divisions that were best located for economical operation. The same principle has been carried out in dozens of instances in the industrial world, and the public utilities have used it to advantage in their great super-power schemes. So there seemed to be no reason why the railroads should not follow the trend of the times, and by a better coordination, effect changes that would strengthen general railroad credit and improve the railroad rate structure.

Why Railroad Securities Are Behind Industrials

WHAT seems to be fair and logical for the regulation of two great industries, apparently, does not apply to the one dealing in transportation. It is these official inhibitions that explain why railroad securities have lagged so far behind the industrials and public utilities in the great bull markets

of the past four years. So far as one can see the composite membership of the Interstate Commerce Commission has neither unanimity of plan nor purpose. It has its Right and its Left wings. Invariably the one dissents from the other in opinions of consequence. There is a temporizing policy where there is not an out and out negative one. Timidity, listening for the public echo to its intimations, suspicion of motives of railroad officials regarding consolidations, and delays because of legislation that may some day be helpful, as the Parker bill, describe the Commission's attitude. In the opinion of many observers it exhibits no statesmanship, and no coordinated policy, both of which should be required of a body of men who are to decide the destinies of the most important group of corporations in our national life. It acts as though confused and bewildered by the transportation problems put before it.

The defeat of railroad consolidation, although consolidation has been a primary party principle, has been carried through two national administrations. There have been a few exceptions to the general spirit of official antagonism. The positive decrees of the Commission have permitted mergers of lines in the southwest, notably the rewelding of the Missouri Pacific system, the proprietary interest of the St. Louis & San Francisco in the Chicago, Rock Island & Pacific, and the Southern Pacific in the San Antonio & Aransas Pass, the absorption by the Baltimore & Ohio of a small road originally one of its undesirable parts, but subsequently rehabilitated, and in half a dozen minor affiliations between roads in the South, as the Clinchfield with the Louisville & Nashville-Atlantic Coast Line system and members of the Seaboard Air Line family in Florida; also the Wabash was permitted to take over the Ann Arbor. Only one of these mergers covers a wide enough territory to permit the experiment of consolidation to be successfully tested.

On the other hand one merger phase after another has been denied. I have said that there was reason for this as in the lack of logic in the proposed ownership of the Erie Railroad, running from New York to Chicago, by the Chesapeake & Ohio, operating between Chesapeake Bay and the Great Lakes, and in the original application to build up a group of southwestern lines on the foundation of the Kansas City Southern. Much of the Commission's objection to the unification of the eastern trunk lines has been based on the inability of the heads of these properties to come to an agreement over the distribution of the independent roads in their territory plus the confusion that developed out of the attempt of L. F. Loree to create a fifth system in opposition to the existing four. This has held up progress for several years. Whether or not it will be quickened by the purchase for the Pennsylvania Railroad of the Wabash and Lehigh Valley holdings of the Delaware & Hudson, remains to be seen. At this writing it is not clear whether the Pennsylvania intends to possess itself of these roads permanently, or graciously partition them among its competitors.

Important Mergers Not Expected

THE broad considerations underlying railroad consolidation are the ability to bring to a balance various groups of roads, some strong and some weak, in order to stabilize the rate structure and to make railroad credit more uniform, and to establish operating conditions that will provide satisfactory service at a minimum of cost. It is feared that the spirit in which railroad legislation was conceived has been permitted to die down to a feeble semblance of the original through the exactness with which the Interstate Commerce Commission has interpreted its duty as well as its fearfulness of acting in a way to displease its constituency.

Meanwhile there have been too many examples of "financial manipulation of great railroad properties as an accompaniment of acquisition or consolidation under the law"—to quote from the decision in the Chesapeake & Ohio-Erie case.

I seriously doubt whether there will be any important mergers in the next few years. The benefits of consolidation are certainly intangible. Those who have studied them with an unprejudiced mind are inclined to believe that the values in operation and on the financial side of the railroad account have been overestimated. This explains the element of resistance that crops out in influential railroad quarters whenever mergers are suggested.

Investing the Other 25 Billions

(Continued from page 953)

employed by the Federal Reserve System to control the situation continue to prove inadequate, then it would seem that there can be only two possible eventualities—either the present trend will continue until there is a serious break in the stock market and a painful deflation of values, or Congress will be aroused to enact legislation restraining banks from making such loans. The fact that in the establishment of the Federal Reserve System, the Federal Reserve banks were themselves forbidden to make loans of this character seems to be sufficient evidence that the advocacy of such control is, if not imminent, at least entirely possible.

A New Field Imperative

BANK policy should be determined constructively, not fearfully.

Private commercial banks must be operated at a profit, and to be so operated they must have profitable markets where their deposit liabilities can be turned into earning assets. Again, therefore, the question resolves itself into that relatively new but tremendously significant problem of American banking—what shall be the recognized use for deposit funds of banks which remain after legitimate commercial loans have been taken care of?

To the investment banking mind this problem of commercial banks is to be solved, at least in large part, by giving more attention to the investment phases of general banking. All well-informed bankers are acquainted with the fact that industry has been turning increasingly and very definitely from short term to long term financing. The reasons for this are many, including lower interest rates, a more stabilized business situation, smaller inventories, consolidations that result in better credit for individual firms, etc.

The writer recently took ten representative corporations and charted the trend in volume of (1) their long term and (2) their short term obligations through the last six years. The short term obligations (notes, bills, and accounts payable) actually fell off between 1922 and 1927 by 18 per cent. On the other hand the bonded debt of these corporations increased during this period by 120 per cent. Compare this increase in bonded debt of representative corporations with the fact that national banks, for instance, have increased their long term loans to industry (purchases of industrial bonds) by only 60 per cent since 1922, and it should be clear that at least this class of banks has not kept itself in line with industrial financing. In other words, if national banks are representative of the whole commercial banking field, then commercial banks would appear to be definitely losing ground in their credit importance to industry.

The foregoing might not be so important if it were not for the fact that the wise and profitable disposition of upward of $20,000,000,000 is now one of the most pressing problems of sound commercial banking, and a problem which is becoming continuously more insistent because the margin of deposits above legitimate commercial loans is growing substantially wider every year.

A Solution Suggested

THE investment banking mind concludes from the above that both national and state banks could very wisely turn a much increased share of these funds into the bonds of industrial and commercial corporations. Not only could the banks use more of the deposit surpluses (after local loans have been taken care of) as investments in these classes of bonds, and secure a return on their funds which compares favorably with any other source of bank income, but they could also, it seems, very wisely turn much of what is now going to the speculative market as call money loans, into industrial investments.

Some bankers have defended the policy of turning to the call money market as a legitimate means of placing their funds in industry. However, since most call money is used to carry securities on a margin, it ought to be clear that this sort of lending by banks tends far more to inflate industry than to support it. And it has unquestionably done so in recent years to an extent seemingly fraught with distinct risk to our national economic well-being.

Banks have long recognized that in making investments they have had two distinct responsibilities, (1) that to their depositors involving safety primarily, and (2) that to their stockholders involving not only safety, but earnings. In view of the present national integration and close interrelation of our banking system it ought to be recognized

that bankers have yet a third responsibility with regard to their investment program. The social significance—the national economic effect—of the disposition of their funds should certainly be kept in mind. This is not merely a matter of pseudo-patriotism. It is a matter of urgent economic importance.

Opening New Fields

IT is only fair to recognize the fact that the commercial banking system cannot be expected to recast its structure and "go along with" every passing vogue in finance and credit. Still, we have plenty of evidence that banks and the banking system are entirely capable of adjustment to such changing conditions as open new fields of service and new opportunities for profit. The immense expansion of trust service and trust departments is a case in point. The fact that the savings function of almost all classes of banks has been allowed to expand entirely out of previous proportions, in the last half decade, is another illustration. The conclusion seems to be warranted that American banking has the capacity to make whatever adjustments in its services and functions which permanent changes in the economic structure of the country may prove desirable.

Competent opinion is almost unanimous that the credit needs of industry have undergone a relatively permanent change. There is conceded to be less seasonal and cyclical variation in the demand for cash and credit by corporations than there used to be. Present indications point to still less variation in the future. The habit is growing among corporations of building up reserves with which to take care of special demands for capital and the seasonal fluctuations in inventory.

If, then, the industrial and commercial demand for credit has taken a permanent shift in the direction of long term requirements it seems logical to conclude that commercial banks must adjust themselves to this situation.

The Problems Involved

ANY disposition of assets in a conservatively managed bank, and especially any change in the disposition of bank assets, must be examined from at least three important points of view—safety, liquidity and earnings.

Banks have been, for the most part, very fortunate in their experience with bond investments so far as safety is concerned. Heretofore, of course, the bulk of bank investments has been government bonds, and government bonds in our country have come to signify the last word in safety. But the supply of government bonds is being reduced at the rate of about a billion per annum through retirement of the public debt, hence further investment expansion by banks must be largely in the realm of corporate securities. The purchase of corporate securities is, of course, the essential point to be considered because this is probably the means by which commercial banks henceforth will extend a larger and larger per cent of their credit which goes to industry.

The Comptroller of the Currency makes a periodic check-up on the profit and loss feature of bank loans and investments. His figures show that even though there has been a large percentage shift in bank investments from government to non-government, or commercial securities, in the last half decade, there has not been, during this period, any increase in the loss ratio chargeable to investments of national banks. This loss ratio, moreover, is substantially lower than the ratio sustained by national banks on their loans and discounts.

Customarily, when the banker, or any other investor for that matter, is considering a change from his present investment program he is obliged to choose between more earnings and more safety for his funds. In the present situation, however, it seems that bankers may now choose to have both more safety and more earnings by turning from the call money market to bond investments. In addition, it would seem that this policy is so distinctly more consonant with the sound financial well-being of industry that it must have decided appeal to bankers, on general principles.

Diversification Desired

DIVERSIFICATION is another aspect of paramount importance in considering the question of safety for bank reserves. The point is often overlooked, moreover, that bonds afford a wider opportunity for diversification than does any other type of bank reserve. The bond market offers diversifying opportunities, for instance, into many strong individual corporations and bonds are the exclusive investment opportunity into several distinct fields of operation such as improved real estate, municipal undertakings,

etc. If the bank's diversification program is planned as it should be, to carefully balance the type of risks assumed in its local loans, then this great breadth of investment opportunity will prove most significant.

If safety is the corner-stone, liquidity is the keystone of the arch of sound banking. The point of liquidity is raised most often against further expansion by banks into the realm of investments. There are two phases to the problem of bond investment and liquidity.

It is quite possible that with the transition noted in industrial capitalization, less liquidity of bank reserves will be required than has been the experience in the past. If corporate customers are depending more and more heavily upon long term credits and upon their own special reserves for working capital and emergency capital, undoubtedly their demands for short term loans at the bank will become less irregular and unpredictable. In addition, there is the matter of time deposits. No one is quite sure just how liberally one should compute the reserve against time deposits, nor exactly where to draw the line as between this class of liability and the demand deposits. It is certain, however, that the continued increase in time deposits, by the very distinction of their nature, tends to give the banker a relatively larger measure of certainty as to the funds he can count on at a given time. It is not here argued that bank investments should be expanded in direct ratio to time deposits; that might even be arguing against the liquidity of investments. But certainly it is logical and rational for the banker to feel that he has more leeway in designating the nature of his reserves when time deposits are mounting out of all previous proportions, than formerly.

Revolving Funds

THE full measure of liquidity to be had from sound bond investments has never been quite appreciated. First, there are the highly liquid revolving funds, consisting of short-maturity and early-maturity bonds, and especially of bonds maturing at the particular seasons of the year when a bank has unusual demands for cash. These revolving funds based on quick maturity are capable of very great variety in administration, and offer unsuspected opportunities for fine adjustment to individual bank situations.

The whole investment structure of a bank can and should be planned so that the bond maturities are evenly distributed in sequence and thus will automatically turn back into the cash account a steady flow of funds from year to year. As the size of the investment reserve grows, the essential liquidity of this feature becomes more apparent and its flow of funds more and more regular. Any bank with a moderate sized reserve can, of course, have substantial amounts maturing every calendar year and can arrange the bond purchases so that relatively more of these will mature in the spring or the fall, at whichever season the heavier demands may come for local credit.

Considered from the standpoint of earnings, bond investments take second place to only one major classification of bank assets, the local short term commercial loans. The differential in favor of the loans may vary all the way from one-half of a point up, depending both on the facts of the local situation and the banker's capacity for choosing bonds.

On the other hand, bonds are far more liquid than local loans, and they offer that highly important opportunity to diversify against local loans, which are often grossly unbalanced from the standpoint of risk.

Bond investments must frequently be prescribed to meet the above situations quite regardless of the question of income. Beyond this point, however, the bond account should stand entirely on its own feet. It should and can be set up in such a way as to give maximum earnings, marketability, etc. The day is past when any responsible bank can afford to disregard the earnings possibilities of its bond reserve. This already constitutes too large a fraction of bank assets for such an attitude to be consistent with good business.

Twenty-five years ago it was possible to find substantial amounts of bond investments sufficiently conservative for bank portfolios in only one major field, that of railroads. In contrast, now, fully a half dozen of major corporate investment fields have reached a sufficiently stabilized condition to furnish conservative investments for bank reserves. With railroad, utility, industrial and commercial, real estate, and, now, a number of seasoned foreign corporate sources to draw upon, it is possible to build up a bank reserve structure which is conservative throughout, thoroughly well-balanced, sufficiently liquid to meet the specific requirements of the bank for which it is planned, and with an average earning rate high enough to contribute substantially to the profit margins of the business.

It is impossible to say, except in spe-

cific cases, just what earnings should be expected from the bond account, but they will certainly exceed the returns to be had from call loans by a considerable margin. They should surpass the income from "loans on securities" by from one point to a point and a half. This is an important observation, as will be seen from the fact that the volume of "loans on securities" has now passed the volume of total investments for that important group of 600-odd banks which report weekly to the Federal Reserve Board. Again I wish to observe that not only will the earnings on owned securities be substantially better than the returns from loans on securities, but considering the matter from a broad banking standpoint, it is sounder public policy.

Undoubtedly much of the hesitancy shown by banks in the past toward a more definite launching out in the expansion of their investment reserves has been due to a consciousness that this is a definite departure from traditional commercial banking. But the old days of 100 per cent commercial banking are now a thing of the past, and there is certainly an abundance of incentive today for commercial banks to concentrate and specialize in this newer (for them) phase of industrial financing. Not only must their own bank reserves be increased much more extensively than in the past, but there is a vast amount of new trust business which hinges largely on the successful administration of investments, and there is an ever expanding volume of bond sales to customers—new business almost for the asking.

Unquestionably the future success of commercial banks is going to rest much more than it ever has upon the scope and the skill of their investment activities. The investment phases of commercial banking are presently to become of equal importance with its short term credit operations, and the "other half" of bank deposits will be translated into earning assets in the form of conservative corporation bonds.

The A. I. B. Convention

THE 26th annual convention of the American Institute of Banking opens in Philadelphia, June 18, and runs for five days. It is a "working" convention. Most of the time is given to conferences of small groups—eight in all—meeting for four hours on each of three days.

These conferences are built around the questions which arise in everyday banking practice, and the list of subjects discussed embraces the whole subject of banking.

At the two convention sessions the speakers will be John McHugh, Chairman of the Executive Committee, Chase National Bank, New York; F. N. Shepherd, Executive Manager, American Bankers Association, and Rev. A. Ray Petty, Pastor of the Baptist Temple, Philadelphia. The delegates will be conducted on a tour of the many historic buildings, and on the adjournment there will be a pilgrimage to Valley Forge.

Tide of Farm Tenancy Runs High

(*Continued from page* 958)

operated nearly 61,000,000 of the 344,000,000 acres of harvested crop land. That is more than one-fifth as much as both full owners and full owners operated, and over 40 per cent as much as either group farmed separately.

Improvements in tenancy statistics have been notable beginning with 1900. The crude counting of noses in 1880 and 1890 was perhaps sufficient, for there were probably few part owners and probably less difference in size of farms between operating owners and tenants than appeared later. The differences between tenure groups in acreage and value description as shown in the twenty-five years, 1900 to 1925, are revealed in the statistics as they probably could not have been shown before 1900.

In any case, we stand at the end of the first quarter of the twentieth century with recent increases of tenancy, so far as farm or farmer units are concerned, in states of the Great Plains and farther West, but with a predominance of tenancy over our areas devoted to staple crops such, perhaps, as we have never known before. Farm tenancy has expanded its extensive margin in the newer farming regions, but it has expanded almost correspondingly, though without show of numbers, in the regions in which agriculture has been long established.

No Cause for Alarm

ALARMISTS will render the tenancy problem a good service by devoting themselves to other factors in the farm situation. Tenants in many cases can be thankful that they have little or no farm land purchased before the prices for such property reached their present low point. On the other hand, there are no signs that any unusually large proportion of them are likely to be able to buy land in the near future. It would be less surprising if an unusually large number of farm laborers

should step into ownership of farms in the next several years than if an unusually large number of tenant farmers should do so.

Few tenants or hired hands on farms have had opportunities for saving for farm purchase in recent years. A return of prices for farm products in line with prices for products that farmers buy may assist to this end, but several years of prosperity will be required to make much of an impression in most of the staple crop belts.

The rising tide of tenancy shows little or no abatement, but the form of manifestation has changed. There is little satisfaction in the fact that over half of our land from which we harvest crops is operated under lease, and still less satisfaction in the absence of any sign that there will be a change in the opposite direction.

It is too early in the twentieth century to say that American agriculture may not have a land tenure problem approaching some of the European patterns. Experiment stations and other agencies that can direct their researches toward the measurement of rates of exhaustion of applied fertilizer may help materially in meeting the problems of a tenant agriculture as soil restoratives and soil-building farm practices become more necessary on such land.

Retail-Wholesale Revolution

(*Continued from page 933*)

attention, his credits, his whole range of services on the profitable retail account.

The Part Banks Play

WHEN times are good and money is plentiful, banks compete with one another to extend credit to anyone who can meet their rather reasonable requirements. If an individual contemplates opening a retail store in a community, he can usually get credit from some bank, since that bank feels that if it refuses, a competitor bank will make the advance. The census of distribution discloses the average number of people required to support the different kinds of stores and can be used to advantage by the local banker. If, before granting credit, the banker will question the merchant concerning his property location, the banker then has a basis for determining whether the business in that community is sufficient to support another store. If not and he grants the loan anyway, he not only assumes the credit risk for the new merchant but he also endangers the success of the other merchants to whom perhaps he also extended credit.

The census of distribution report shows results of the canvass by forty-six different lines of retail business, and also classifies these by chains and independents, and by cities. Sales people, wages, and expenses are similarly classified to show significant points not mentioned here.

Of the 94,000 establishments enumerated, 14,150 or 15 per cent, were chains and did 28.7 per cent of the total business. The sales of chain stores are much larger than the independents, on an average.

There is nothing in this report which suggests anything except that chains will continue to grow. In some fields, such as shoes, hats and caps, variety and gasoline, the chains do more business than the independents. In others, such as hardware, they have made little progress. Average sales are nearly three times as large for chain grocery stores as for independents.

The Hodge-Podge Stores

RELATED and entirely unrelated types of commodities now find themselves side by side in nearly every type of retail store. Boot and shoe stores sell thirty other kinds of merchandise. Drug stores handle fifty-seven classes of merchandise.

This has been due to sales pressure for many outlets for over-produced industries, and has been encouraged by the tendency of retailers to "put in a new line" because some competitor has done so. The volume of these side lines is now shown to be too small in thousands of cases to produce a profit.

"When it is realized that only a very small proportion of the retailers in this country have any idea of the internal affairs of their establishments as a whole," says the report, "we must not look far for the answer, the reason why so many fail or cannot operate with a reasonable margin of profit. The startling combinations disclosed by this report (relating to the criss-cross and confusion of merchandise outlets) should inspire many independent merchants to install such records as will enable them

to know what takes place and when it happens.

"If the wholesaler is to have profitable accounts on his books, it will be to his interest to lend his active support to any study which has for its object the discontinuance of selling merchandise for which the demand is too small to justify its existence in a store. As a matter of fact the required information for any sound decision will be obtainable from only one source, the wholesaler. The retailer, in the main, is unable to supply the facts because of inadequate records."

Thus all morals in this census tale run back to the wholesaler, and perhaps inferentially, to the banker who finances the wholesaler.

The Wholesaler's Problem

THERE are plenty of facts about the wholesaler, but they are dry for all except the wholesaler, and the retailer's changing conduct is really the heart of the wholesaler's problem. Conclusions concerning the wholesaler are not proved by this census, but they are strongly suggested.

One jobber cut his lines one-third, his territory one-fourth, his accounts one-half, and concentrated his buying. Then he took his new concept to his remaining customers. He induced them to order in quantities and at intervals to permit economic handling. He shared his savings by lower prices, and a system of sliding-scale discounts. His volume and profits increased.

Another jobber determined which lines he handled at a profit and which he handled at a loss. He consulted with his retailers, and found that the loss-lines to him also represented loss-lines to his customers. Both moved toward elimination of the lines, and both profited.

To take such drastic steps as these requires a rare kind of courage, but many wholesalers will develop it in the next few years.

A Study of the Situation

THE first wholesalers' conference was held in Washington a few months ago. The continuing aspects of its work are represented by four committees with these respective questions: (1) What are the wholesaler's functions and services? (2) What are the economic factors affecting wholesalers? (3) What business analyses are practicable? (4) What financial methods are most desirable?

The last question relates to the abusive taking of unearned discounts by retailers, the exchange of credit information with special reference to bad debts, and perhaps the matter of the wholesaler's retaining title to goods on the shelves of the retailer, accompanied by automatic replacement orders worked out by the wholesale salesman.

There is a strong tendency these days to sell terms instead of goods and service. Competition has given business to the concern which will wait longest for its money, and this creates a state where many small retailers practically do business on the credit of the supplying wholesaler. The sooner there is a return to competition based on quality of goods and efficiency of service, the sooner there will be a prosperity which is stable and which includes profits in the picture. The consumer will not suffer, either.

There are signs of great activity among groups of wholesalers. The dry goods wholesalers formed an institute to work out their problems cooperatively. Other wholesalers are planning similar institutes.

Distribution Revolution

THE whole business of distributing merchandise, of selling goods, is undergoing a very rapid reorganization, amounting virtually to a distribution revolution, with many points of comparison to the industrial revolution of other days. It has its aspects for the manufacturer, with his capacity for production of more than he can sell; for the retailer who is trying to serve his community at a profit to himself; for the chains which are combining the wholesale and retail function and even in some cases the manufacturing end; for the jobber and wholesaler in between both ends, and for the banker who is at the right hand of all these groups.

The problems of the manufacturer, wholesaler and retailer are really one. More narrowly, the interests of the wholesaler and the retailer are essentially identical. It is a case of the survival of the fit, and the object is to eliminate wasteful and unnecessary effort, to confine selling expense to rapid turning and profitable lines, to minimize investments in inactive stocks, and to release more money for working capital.

The Corn Borer Steadily Advances

(*Continued from page* 945)

be done, all extra work should be done before the rush of spring work begins, in so far as possible.

Control Work Program

TO this end the department has outlined a seasonal list of measures, as follows:

September—Cut corn low for silage.

October—Cut corn low for shredding or shock feeding.

November—Harvest standing corn. Plow corn-stubble ground, where practicable. Shred corn fodder.

December—Plow early harvested stalk ground if weather permits. Shred corn fodder.

January and February—Break standing stalks if no snow. Rake and burn stalks if frozen dry. Destroy cobs and trash around barns and feed lots.

March—Rake and burn stalks if not already done. Do early spring plowing.

April—Disk for small grain. Harrow. Seed small grain. Hand pick and burn after seeding if necessary. Rake and burn stalks on corn ground. Plow for corn. Disk corn ground. Destroy cobs and trash around barns and feed lots.

May—Harrow corn ground. Roll corn ground. Plant corn. Hand pick stalks and trash after planting if necessary.

Effort made in fitting this work into the off seasons of the farm will be well spent. The farmer will feel less pushed for time and, as other things will not be neglected for it, the work itself will prove less expensive than if done during the height of the season.

It is emphasized that the farm practices that are necessary to keep the borer in check, for the time being at least, necessarily involve the use of additional labor and power. In the spring of 1927 the labor used in preparing 1926 corn land for the 1927 crop in most of the corn borer clean-up area was approximately twice the amount normally used. This was due partly to the farmers' lack of experience in performing the necessary control operations. Weather conditions were also generally unfavorable to the adoption of control practices in 1927. Under more favorable weather conditions the control practices would not require so large an increase in labor and power.

Three Methods Offered

BUT even with more favorable weather conditions, the extra labor involved in control practices in most of the important corn-growing areas indicates the serious nature of the new farm-management problems which farmers in the infested areas are encountering, and suggests the amount of conscientious determination that is necessary on the part of the farmers in order to meet the situation successfully. Slipshod methods will not do, nor will even some of the careful methods of former days. In fact, it is imperative, says the department, that in one way or another farmers adopt one of three optional methods of control: Feeding corn to livestock direct from the field, or as silage, or as finely cut or finely shredded material; plowing under cleanly, or burning completely.

"The actual damage to the corn crop in the eastern Corn Belt of the United States has been limited to such small acreages that no pronounced shift from corn to other crops has occurred," says the Department of Agriculture. "In the Canadian areas where the infestation and damage have been heavy, there has been a marked shift from corn to such crops as oats, barley, wheat, peas, beans, hay, sugar beets, and tobacco. In some localities over half the corn has been displaced by these crops. Whether Ohio and Michigan farmers should shift production will depend mainly on two things—the advantage of corn over other crops either as a feed crop or as a crop for sale, and the ease or difficulty with which methods of corn production may be modified so as to keep down the borer infestation and avoid serious commercial damage. The general adoption of practicable methods of control such as are outlined by the state and Federal students of the borer problem should prevent serious damage to the corn crop and obviate the necessity for any general replacement of corn with other crops.

"In northwestern Ohio and southeastern Michigan, where a shift is most probable, the crops to which farmers turn naturally are such as oats, wheat, mixed clover, and barley. Oats, wheat, and barley are relatively unprofitable in this vicinity. Alfalfa is more nearly on a par with corn in value per acre and would be useful on dairy farms with the use of silos as an additional control measure on the remaining corn acreage."

Program of Official Work

AT a conference, held early this year and attended by the deans of agricultural colleges, directors of experiment stations, and other scientists from fourteen states, the program as outlined by the Department of Agriculture and the several states that are carrying on corn borer research was accepted by the conference as a complete program for 1928, and a committee was appointed to review and correlate the various phases. The committee includes G. A. Dean, Kansas, representing the American Association of Economic Entomologists; H. H. Musselman, Michigan, representing the American Society of Agricultural Engineers; L. E. Call, Kansas, representing the American Society of Agronomy; C. R. Arnold, Ohio, representing the American Farm Economic Association; together with H. G. Crawford, Ottawa, Canada; W. P. Flint, Illinois, and R. B. Gray and D. J. Caffrey, of the United States Department of Agriculture.

The department's activities include cooperation with the states in a comprehensive research and control program, and in an intensive educational campaign in the infested area. Quarantine measures, the cleaning up of river valleys, and other precautions against long-distance spread are also taken by the department in cooperation with the state authorities. As a part of the educational campaign now being waged, popular bulletins are distributed regarding present status of the infestation, history of its spread, methods of control, and detailed methods of farm practices under borer conditions.

Price of Railroad Bonds

(*Continued from page* 941)

market price of bonds. Not because the purchase and sale of bonds by banks constitutes the only factor involved in the bond market for any one type of bond, but because the same influence may be expected that the Federal Reserve now exerts on the government bond issues by buying or unloading government securities.

The banks can never have as great an influence as the Federal Reserve has on government securities, nor can the banks act with the unison that the Federal Reserve acts, but the bond market will come more and more to feel the influences of bank buying and selling of bonds that are held in numbers by banks. Railroad bonds may, perhaps, become the type of bonds most dominated by banks.

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Each important member of the staff of every bank should have his own personal copy of the Journal that he and the institution for whom he works may have the benefit of the valuable information this magazine contains. Our group subscription plan enables the bank to supply this need at slight cost.

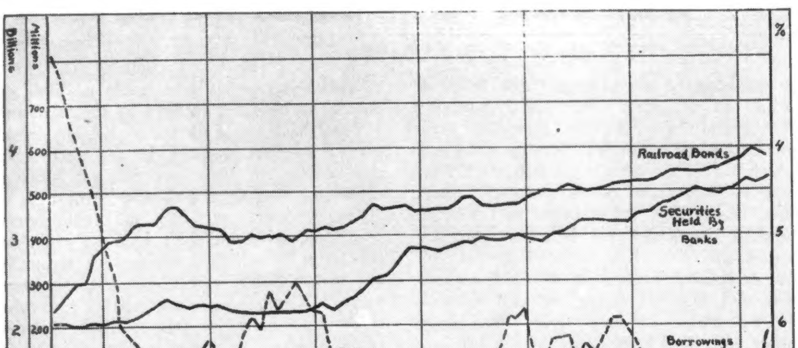


CHART II

Fluctuations in railroad bonds follows changes in amount of railroad bonds held by banks and bank borrowing

Bank of Italy

(*Continued from page 927*)

are carried capital accounts referred to, and with which the branch statements are consolidated. We do not assign a portion of the capital to individual branches, but each one has the benefit of the loaning power of the entire sum, as well as the added security which this affords depositors.

Loans are made direct by the branches, except in instances where the amount is unusually large or the branch manager wishes to secure the advice of the head office credit department. The customers of the branch deal with the local officers, and only in extraordinary circumstances are they brought into contact with the head office departments. The branch makes daily reports of all loans, and as these are received the head office credit department reviews them. Pertinent comments or suggestions are then forwarded to the branch manager, so that the loan may be properly followed and collection insured at maturity. The broad fundamental policies respecting credits, are outlined by the general finance committee, and interpretation and application is then made by the credit department. This system permits the smallest branch in the organization to secure the benefit of the best obtainable advice and counsel on every loan that is made. And it also insures a uniformity of policy, based on a thorough knowledge of conditions throughout the entire organization.

As an auxiliary to the credit department, and yet distinctly an entity in itself, we have a central real estate loan department, synchronizing all of our loan operations in urban and rural property, and providing a uniform system of appraisal throughout the state.

Inspectors Appear Without Notice

UNDER the direction of the auditing committee, a constant check and examination of the business at the various branches is maintained. This is far more thorough and complete than any outside examination can possibly be. A trained staff of inspectors is engaged in the work, appearing without advance notice at the office to be examined, and spending as much time as is necessary to see that the job is completed. Not only do they follow the usual channels of examination pursued by state or Federal authorities, but also check into the observance of operating practices required by our own rules and regulations. The report of the examination, with any irregularities, is filed with the auditing committee, and subsequently the items that have to do with other departments of the bank, are referred to those who are concerned. Upon their next visit to the branch, the inspectors verify the fact that matters have been corrected.

Responsibility for the management of the bank rests with the cashier's department, subordinate to which are the comptroller's and accounting departments. All operating instructions for the branches are cleared through the cashier, in the process of transmission. The introduction of new standards of practice, or preparation of improved forms, find their way into general use, by appropriate action of the cashier.

It is this adherence to definitely established procedure in all matters, large or small, that makes possible the absolute control of the institution. Each department has a fixed place in the scheme of organization, and the necessary machinery for coordinated action has been supplied. The actual control is simplicity itself, because of the care that has been exercised in building the foundation.

Like Federal Reserve System

BASICALLY, the theory of control that we have applied to the Bank of Italy, is the same that is followed by the Federal Reserve System in the maintenance of its twelve branches. Each unit in the group exercises a certain amount of independent authority that has been delegated to it, but the methods by which control is preserved are supplied to all, and are uniformly followed throughout the organization.

While we do not believe that we have achieved perfection in the practices we have adopted, at the same time we know they are fundamentally sound, and by following the rules that have been worked out we can successfully direct the affairs of our institution.

Every bank is entitled to the benefits of the JOURNAL Group Subscription Plan.

Profits in the Clothing Industry

(*Continued from page* 970)

turers of ability, catering to the rapidly changing retail demand, have held their own against the few large organizations in the field. The corporation could not compete with the "sweat shop."

Great corporations publicly owned have been far outnumbered by closely owned corporations, partnerships, and individual proprietorships with limited capital.

In the development of the clothing industry in this country a system of outside contracting has become so widely established that many so-called manufacturers have no plants of their own. Instead they let out the work to contractors, who in turn may employ subcontractors and sub-subcontractors.

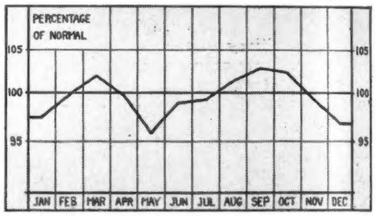
Labor is naturally a major factor, and workers in the needle trades are recruited chiefly from the foreign element of New York and a few other large cities. Russians and Poles supply the bulk of this requirement, and they seem averse to other than family control of business enterprises, and do not like to trust themselves to coöperative forms of organization.

Incidentally, such a condition makes a thorough study of the clothing manufacturing industry particularly difficult. Shifts and changes among the contractors and subcontractors are so frequent that a survey would have to be made monthly to present an accurate picture. Private investigators are hampered because of the refusal of those questioned to give information unless in fear of the law, and even the United States Census statistics are inaccurate due to the manufacturers not understanding the questions and not reporting on a uniform basis.

Recently a movement for consolidation and large-scale production has started and is gaining momentum rapidly. During the last year the trend became especially significant. Faced with unsatisfactory weather conditions from the beginning of 1927, right up to the end, numerous of the larger organizations making trade-marked clothing to sell at popular prices reported very favorable earnings.

Such advantages as bulk purchasing, quantity production, national advertising, market study, scientific sales methods, and establishment of retail branches are beginning to tell. Trade authorities appear to be agreed that it is becoming increasingly difficult for the clothing manufacturer of limited means and organization to compete at a profit.

In this program of consolidation and expansion the investment bankers have played a leading part. Hardly a week passes without an announcement of the merger of two or more sizable concerns in the various



The average seasonal fluctuation of employment in the men's clothing manufacturing industry

branches of the industry. Accompanied, as a rule, by public offering of shares to secure additional capital, the enlarged organization usually includes representatives of the underwriters on the board of directors, and injects the most up-to-date methods that in the hands of investment bankers during the last decade have proven so successful in speeding up production, expanding sales and increasing profits.

Retail outlet of many organizations has been enlarged and made more permanent by the establishment of chain retail stores or by the acquisition of financial interests in important distributing organizations.

A Four Billion Dollar Industry

LAST fall the Department of Commerce published a pamphlet collecting Census of Manufactures statistics on the "wearing apparel" industries, which bear out the observations noted as to the consolidation movement among manufacturers and the declining value of product. The latter is the result of keen competition, lower prices, demand for cheaper clothing, and strikes.

Men's clothing (not including custom-made) was valued in 1925, the latest year

for which census figures are available, at approximately $1,087,000,000, compared with $1,179,000,000 in 1923, a decline of 7.8 per cent. During the two-year period, number of establishments declined from 4607 to 4000, or 13.1 per cent. Average number of wage earners declined from 194,820 to 174,332, or 10.6 per cent.

During this period the value of shirts manufactured declined from $241,000,000 to $226,000,000, and the number of shirt factories from 934 to 840. Collars decreased from $43,000,000 to $28,000,000, and number of factories from thirty-seven to twenty-eight. Other furnishing goods for men increased from $103,000,000 to $121,000,000, although number of factories declined from 454 to 419.

Women's clothing was valued at wholesale in 1925 at $1,294,000,000, compared with $1,407,000,000 in 1923, a decrease of 8 per cent. The number of establishments declined from 7046 to 6127, or 13 per cent, and average wage earners declined from 133,195 to 126,466, or 5 per cent.

In 1925 the average men's clothing factory had forty-three wage earners and the women's clothing factory had only twenty-one. Average annual output of men's clothing was $270,000 per factory, and of women's clothing $210,000. Beyond the one hundred leading concerns in the industry, it will be seen that the average size of the others is unusually small.

Millinery and lace goods were valued at $310,000,000 in 1925, compared with $298,000,000 in 1923, and number of factories declined from 2693 to 2443. Corsets, brassieres, etc., declined in number of factories from 216 to 185, although value declined only from $78,000,000 to $77,000,000.

Knit goods, which is quite an industry in itself, including hosiery, underwear, sweaters, bathing suits, etc., and cannot be discussed in detail, declined from $848,000,000 to $810,000,000 in value of products and from 2323 to 1987 in number of establishments. This classification includes all knit goods without regard to material used, whether it be silk, cotton, wool, rayon, or minor fibers.

Fur-felt hats for men show little change from year to year, while those for women show a steady increase at the expense of the larger wire-frame and straws of not so long ago. The combined total gained from $75,000,000 in 1923 to $80,000,000 in 1925 despite a decline in number of factories from 163 to 146. Straw hats, for men and women, however, decreased from $33,000,000 to $28,000,000 in value. Cloth hats and caps gained from $43,000,000 to $44,000,000.

The popularity of fur goods is reflected in an increase during the two-year period from $198,000,000 to $254,000,000 in value of product, and from 1758 to 2000 in number of establishments. But this figure of a quarter of a billion dollars does not accurately measure the nation's fur bill, due to the margin of profit in distribution. Purchases of furs by the public were recently estimated by Dr. Richard Price Buckmaster, editor of *The American Furrier*, at $1,000,000,000 annually.

Clothing manufacturing is a two-seasonal business in most branches, the peaks of sales coming in the early summer and early winter, so that corresponding peaks of production come in the spring and fall. The accompanying chart shows the approximate cycle based on employment in the men's clothing industry, reaching about 3 per cent above normal twice a year and falling about 3 per cent below normal twice a year.

Selling terms granted by manufacturers to the trade have not become fully standardized, but are in most cases as follows: Men's clothing, 4/10 (4 per cent discount from face of invoice if paid within ten days of shipment) to 9/10; men's work clothing, 1/10 or 2/10; shirts and collars, 2/10 to 6/10; women's coats and suits, 2/10 to 5/10; millinery and laces, 4/10 to 8/10; corsets, etc., 2/10 to 5/10; fur-felt hats, 6/10 or 7/10; and fur goods, 2/10 to 7/10. When the discount is not taken, the net amount is due in thirty days to four months, according to agreement.

In addition, seasonal dating is frequently granted on goods ordered and shipped before the beginning of the regular season. This involves an additional tying up of capital by the manufacturer, but at the same time enables him to operate at a more even rate against this cushion of advance orders. Seasonal dating, however, is not so important as formerly, due to the prevalence of hand-to-mouth buying.

Manufacturers receive similar trade credit on their purchases of raw materials, which tends to offset the funds tied up in receivables. On woolens and worsteds the usual terms are 7/10 to 10/10; on broad silks, 6/10; thrown silk, 1/10 or 2/10, and cotton prints, 2/10, in addition to which seasonal datings are given. When the discount is not availed of, the bill becomes payable at its face amount in thirty or sixty days to four months after date of shipment.

Some authorities feel that these terms are too liberal and should be shortened in order to stabilize the industry. It is too easy for the "manufacturer" possessed of limited means and no plant to sublet to contractors and cause overproduction, followed by distress selling and frequent bankruptcies.

Return on Investment Is Moderate

CONSIDERING in detail some of the leading companies whose earnings appear in the table already presented, the leader last year was Richman Brothers Company, of Cleveland, manufacturers of men's suits to sell at $22.50 retail. Net profits for 1927 amounted to $3,276,000, compared with $2,892,000 in 1926. Calculated on combined capital stock and surplus at the beginning of the year, this profit represented a return of 46.7 per cent on invested capital in 1927, compared with 41.2 per cent in 1926. This rate is not typical of manufacturers generally, for this company has met with unusual success.

Hart, Schaffner & Marx, with headquarters in Chicago, makers of the well-advertised clothing bearing their name, reported net profits for the year ended Nov. 26, 1927, of $2,245,000, compared with $1,874,000 in 1926. Return on capital investment, calculated on the same basis, amounted to 9.5 per cent in 1927 against 8.2 per cent in 1926.

Shirt and collar manufacturers enjoyed a good year. Earnings of Cluett, Peabody & Co., makers of the "Arrow" brand, increased from $1,772,000 in 1926 to $2,282,000 in 1927, representing a return on invested capital of 6.6 and 10.7 per cent in the two years respectively. Manhattan Shirt Co., second largest producer, increased its earnings from $1,181,000 in 1926 (year ended Nov. 30) to $1,357,000 in 1927, which represents return on invested capital of 10.1 and 11.1 per cent respectively.

Lack of space prevents comment on the smaller concerns in the several fields of men's and women's apparel, but an examination of the profits table will show that, despite some irregularity, the majority of the representative producers improved their position last year. Yet the return is no more than moderate, considering that these concerns are for the most part the oldest, largest and most successful in an indispensable industry.

If the average clothing manufacturer presents a statement to a banker showing a slight growth in sales, a profit on invested capital of 6 or 8 per cent after all expenses, including partners' salaries, with a small balance carried to surplus after dividends or withdrawals, and a properly balanced set-up, he is doing well. Competition continues to be keen. The statement should be audited by outside accountants. Topheavy inventory and slow receivables should be given careful scrutiny.

Any sizable increase in "deferred charges," representing the capitalization of advertising expenses, brand promotion, etc., calls for questioning. The accountants' treatment of this item, if the increase is not justified, may create an apparent profit out of an actual loss. Resort to this practice may indicate that the concern is over-capitalized, and that its plants and current assets as well are in reality worth only half the book value to which they must eventually be written down before any reasonable return may be hoped for.

The Autumn Outlook Satisfactory

WEATHER conditions, always an important influence in the clothing business, have during the first half of the current year been almost as unsatisfactory as in 1927—the cold, wet spring holding back seasonal buying. The acute unemployment situation existing in some parts of the country also slackens retail sales. Nevertheless, with this extended winter season, the dealers have been enabled to pretty well liquidate their stocks of heavy goods.

Leading producers of popular-priced

trade-marked men's clothing reported a good volume of spring business, with many retailers insisting on quick deliveries. Inventories at present are low, and with the cut-price clearing sales now over, the sentiment regarding autumn trade is cheerful.

Women's clothing trade this spring ran substantially ahead of a year ago, and demand for lighter weight dresses for summer wear is strong. Printed silks continue to be the most popular fabric. If the second semester of the year is as active as the first has been, earnings in this line will give little cause for complaint.

Cotton price stability in recent months has helped the men's shirt and collar business, and all indications point to a year fully as satisfactory as 1927. Demand appears to be divided about equally between cheap and high-grade cotton shirts, and between plain white and fancy colors, with rayon and silk mixtures popular, but all-silk still quiet.

Silk price stability has in the same way helped the hosiery business, and sales of women's silk hosiery are running well ahead of a year ago. Well-established knitting mills should enjoy even better profits than last year providing production is kept in close step with actual trade requirements.

Underwear sales are sharing in the generally increased activity of the other lines noted above. Trade reports characterize the firmness of prices, rapid movement of goods, frequent repeat orders, and satisfactory outlook for fall. Demand and production of the various underwear styles appears to have now approached nearer to equilibrium than for some years, and relative stability prevails between the manufacturers of ribbed and woven and "athletic" garments, of both cotton and silk.

The greatest improvement this year will doubtless be enjoyed by the larger concerns having integrated organizations from purchasing and designing to the ultimate consumer. Since the annual purchase of clothing by the public increases only slowly, the gains of these heavily capitalized corporations cannot fail to make inroads on the small family enterprises. Numerous mergers are expected to be effected, and expansion will continue to be concentrated in the direction of retail outlets.

There is less seasonal buying of clothes than formerly. Better heated homes and offices and closed automobiles enable men and women to wear lighter weight clothing the year around. Consequently there is not the regular change semi-annually from light to "heavies."

Philadelphia's Financiers

(*Continued from page* 934)

It is often erroneously suggested that Morris was himself financially ruined by the Revolution. He was not, but on the contrary was reckoned one of the nation's wealthiest men when peace came.

Vast land purchases afterwards, which reached many million acres in Pennsylvania and other states were the direct cause of his financial crash which resulted in his imprisonment for debt.

Stephen Girard was another immigrant who rose to supreme financial heights. As a youth, he came to Philadelphia from France. The one-eyed French lad was a sea captain, and it was in ships and importing that he built the largest fortune known in the United States up to his own death.

To various distinguished captains of industry has been awarded the honor of first using the expression: "Be a bull on the United States."

Girard never spoke that phrase but he acted it for 50 years. He was bullish on the future of his adopted country when the others sat shivering in deep pessimism.

During the War of 1812, although the country had virtually no debt, its political leaders had no faith in its financial stability. They were unable, as the phrase goes today, to sell the United States to the people of the United States.

So when President Madison endeavored to float an issue of $16,000,000, bonds, to carry on the war only about $1,000,000 of the securities were purchased by popular subscription.

The crisis was appalling. The situation threatened to terminate in the eternal disgrace of the nation.

Then up stepped the quiet little Philadelphia "Mariner and Merchant," as he styled himself. He said he would personally buy $5,000,000 government bonds, and he did.

He induced the original John Jacob Astor, then the country's second richest man, to purchase somewhat less than half that amount.

Girard's action alone prevented complete failure of the United States to sell $16,-000,000 of its own bonds.

Girard had become a banker, as well as a mariner and merchant. When the charter

of the First Bank of the United States expired at the end of twenty years, and a recharter was denied, Stephen Girard purchased the beautiful United States Bank building in Philadelphia which still stands.

It was there he carried on his banking enterprise until his death in 1830. Girard's name in his day became a synonym for wealth and banking power.

He easily outclassed every other competitor in his own field. Around the memory of but few other men in the United States has raged more controversy than has been the fate of that prince of optimists.

Having no children he bequeathed his great fortune to found and maintain in Philadelphia the Girard College for orphan boys.

This splendid institution with its 1600 boys housed, fed, clothed, and educated in a beautiful cluster of buildings is an enclosure of 47 acres in the heart of the city, is without a rival in its own peculiar domain.

The Stephen Girard Estate today is valued at about $100,000,000, the sole purpose of which is to carry on his college for orphans.

What Robert Morris was to the young nation in the Revolution and what Stephen Girard was to it during the stress of war at the beginning of the nineteenth century, Jay Cooke, another Philadelphia banker, was to the Federal Union during the days of President Lincoln.

The Optimistic Jay Cooke

COOKE came to Philadelphia from Ohio and when he became old enough to vote he also became a partner in a small banking house.

If the brilliant careers of Morris, Girard and Cooke mean aught for the United States today, they mean this in exalted degree:

Have faith in the future of this favored land.

Jay Cooke was as optimistic as P. T. Barnum. He never looked for nor saw the hole in a doughnut.

This banker of Civil War days had just as trying a financial problem as did Morris and Girard in previous generations.

The North and South marshaled against each other greater armies in the aggregate than had been seen in modern times. To finance those armies required super-financial ability.

Half the nation was battling against the other half, which put the credit of both sections in a perilous state. In that crisis, the peculiar talents and genius of Jay Cooke rose to towering dimensions.

He was a banker, but most of all he was a supreme statesman. So the Federal government turned over to Jay Cooke one bond issue after another.

Some of his critics jeered at his flamboyant methods of selling bonds but his methods worked when no others could be made to do so.

Jay Cooke disposed of many hundreds of millions of government bonds. The sales of Union credit exceeded for a similar period anything ever before seen in the world.

Jay Cooke, like his famous prototype of the Revolution, Robert Morris, was the victim of a deep financial reverse after having accomplished his Herculean task for his country.

No sooner was the Civil War ended than Cooke's optimism and bullish sentiments found an outlet in railway expansion.

Beyond dispute he was the father of the Northern Pacific railway project. He seized upon a mere engineer's survey of a route and in his own mind swiftly converted it into a Continental railroad to the Pacific.

But such was the fearful reaction of American finances a few years after the Civil War that it was impossible to finance the Northern Pacific.

Mr. Cooke always said that it was the Franco-Prussian War of 1870 which brought his downfall. He was negotiating the sale of a great issue of Northern Pacific bonds in Europe. His work was just at the point of completion when Bismarck and Napoleon the Third met in that fateful crash which ended in the dethronement of the latter.

Cooke could not then sell a single bond in Europe and so came the panic of 1873. Such was his transcendent genius that he rose again, liquidated all obligations and ended his days a wealthy man.

These three men, Morris, Girard and Cooke, were men of immense talent, patriotism, and above all each possessed a spirit of optimism in regard to his country which wars, panics and failures never defeated.

In view of the fact that this year the American Bankers Association holds its annual convention in Philadelphia, the history of these three great national financiers from the Quaker City should have particular interest for those bankers who expect to attend the convention.

Our International Payments

(Continued from page 946)

also have been omitted from the 1927 review since it has been found impossible to form a sound estimate of the movement of such currency. Many millions of dollars in American currency are distributed abroad each year by tourists, sailors, immigrant remittances, and other agencies. The great bulk of this export soon finds its way back to the United States, either by returning travellers or bank remittances. Although there is still a large amount of such currency held abroad either for use in local circulation, as is the case in Cuba and some South American countries, or as a safe means of hoarding, it seems unlikely that the excess of either exports or imports is large enough at the present time to materially affect international payments.

Charitable Contributions Decrease

IT may be disappointing to idealistic Americans that in 1927 American contributions to missionary and charitable work abroad show a decrease as compared with previous years and there has also been a decrease in the remittances of immigrants. There has been a downward trend in the missionary contributions ever since the high record of 1922 when the total of such remittances reached $75,000,000. In 1923 the record was $70,000,000, in 1924, $55,000,000, in 1925 it was $50,000,000, and in 1926 $46,000,000. The record for the past year is placed at $43,000,000. The decreased cost of mission work abroad, the lessened demand for relief in various forms and the contraction in mission work in China and the Near East account for most of the decrease. With respect to immigrant remittances this year's review indicates that probably some of the estimates of such remittances in the past have been too high. The restriction of immigration in the United States naturally has had a profound effect upon international payments of this sort while the improved condition of most foreign currencies has made such remittances less necessary and less profitable than formerly. The fact also is to be considered that present immigration laws in the United States encourage the immigration of the families of previous immigrants, thus reducing the number of dependents of American immigrants residing abroad. The estimate of immigrant remittances for 1927 is placed at $241,000,000 as compared with $253,000,000 in 1926 and $370,000,000 estimated for 1922, which was probably the year of the largest payments in the post war period.

Interest Income and Capital Export Balance

ONE of the most valuable features of a review of international payments is in the better perspective with which various items which are the subject of popular discussion can be regarded. For instance, the review for 1927 shows that the receipts of the United States on account of war debts amounted, roughly, to $200,000,000, as compared with total receipts from foreigners on all accounts of more than $9,000,000,000. In other words, although such receipts form an item of increasing importance in our international payment balance, this item, after all, is comparatively small in the make-up of the grand total and certainly does not justify the prediction of many economists that war debts to the United States can only be paid by a flood of foreign manufactured goods imported into this country. Indeed, the total net income of the United States from foreign investments abroad, including war debts and the yield from long and short term private investments, amounted last year to $674,000,000, or almost exactly the same as the net amount of new American capital exported during the year.

So, also, in popular discussion it is usually held as axiomatic that the export of gold ordinarily accompanies decreased merchandise exports or increased merchandise imports—i. e., gold exports are usually made to settle an otherwise "unfavorable trade balance." In 1927, however, the heavy export of gold commenced in the latter half of the year, during which period our favorable balance of commodity trade was $195,000,000 larger than in the first half of the year, and war debt payments to the United States also were heavier during the second than in the first half of the year. The review ascribes as the chief cause of the outflow of gold the need of the yellow metal for foreign currency stabilization, for which purpose it was purchased as a commodity. Low interest rates in the United States and

high interest rates abroad led to the withdrawal of foreign deposits in American banks and other short term funds, which made the transfer of gold practicable without undue premium. Since the United States had more gold than has been necessary for its requirements, the gold movement, in fact, became merely an interchange of funds, most of the imports being paid for out of foreign funds already in the United States. Gold exports, in fact, were largely commodity exports rather than international payments. They had no other effect on the international payments of the United States —at least in 1927—than a similar value of any other commodity.

International Balance

THE fact is that in the aggregate of international payments few, if any, single items have any controlling importance. They are swallowed up, engulfed and lost in the great ebb and flow of international business. A loss in one item is usually adjusted by a gain in some other item. An increase in our exports of merchandise may be met by a decrease in foreign holdings in American banks. A decrease in immigrant remittance as likely as not is met by an increase in foreign deposits in American banks. Ebb and flow are equalized in the tremendous financial and commercial adjustments which go on without ceasing from day to day, week to week, month to month, and year to year, and it is only by a comparison of the credit items of the United States over considerable periods that the actual position of this country in its relation to other countries can be ascertained even approximately. Mr. Hall in this year's review estimates that the total of private American long term investments abroad at the end of 1927 amounted to from $11,500,000,000 to $13,500,000,000, or about $1,000,000,000 more than at the end of 1926. The investments in the United States by nationals of seventeen selected countries at the end of 1927 are estimated at $3,700,000,000, representing, probably, an increase of between $100,000,000 and $125,000,000 over foreign holdings in the United States at the end of the previous year. While the transactions in 1927 show a much larger purchase and sale of American securities abroad and foreign securities in the United States than in previous years, the net movement, taken in conjunction with known conditions in the United States, was as distinctly indicative of increasing American wealth as measured by foreign investments as the most ardent American patriot could desire.

As the authorities of the Department of Commerce repeatedly have pointed out, a statement of the nation's balance of international payments is neither a national balance sheet nor a profit and loss account; but no one can study the various items constituting this annual review without an appreciation of the significance of the stupendous transactions they measure. National profit and loss may be hidden in the intricate maze of these transactions at home as well as abroad, but a review of international payments at least affords a measure of the increasing importance the financial relations of the United States with the rest of the world attain with each passing year as a part of our national life.

England's Currency

The Churchill Currency Bill, which will probably become effective in Great Britain the first of next year, stipulates that the power of note issue shall be vested solely in the Bank of England. Heretofore there has been a dual circulation by the bank and the government. The bank will issue one pound and ten shilling legal tender notes, while the total outstanding circulation of the bank's issue department will be lowered from approximately 90 per cent to 40 per cent. Fiduciary note issues will be fixed at 260,000,000 pounds.

False Gods

(Continued from page 926)

bank, felt it no more than right that the higher offices in the institution should be filled from their own body, and, sometimes, the presidency became, by custom, the perquisite of the senior trustee without regard to his knowledge of banking technique. In other institutions the position of president was thought a suitable and dignified office to be bestowed on citizens of distinction who had retired on account of age from the hurly-burly competition of business life. In both cases, the relations of the bank to its customers and its technical operations were carried on by the treasurer or some subordinate official who had come up from the ranks and was given the satisfaction of more or less complete control of the institution in lieu of the hope of promotion.

All this, together with an almost entire absence of competition until the beginning of the present century, set the savings bank executive on a different plane from that occupied by his patrons, a plane where dignity, honesty and financial wisdom were the important things, and it isn't surprising that all of us officials were human enough to feel our position. We were the little gods who operated the savings bank machine, hard working, honest, right-minded gods, it is true, but made of just a bit different stuff from the depositors or the clerical force, and really, though we never suspected it "false gods." This is what I have called "the old savings bank view-point." The new view-point is another story.

The National Debt

(Continued from page 950)

ers is turned over to government security holders for the redemption of outstanding obligations, new money is made available for investment. No one at present is able to estimate the proportion of annual public debt retirement which represents this new money. But when Congress surveys the machinery of the Federal Reserve System from the standpoint of efficient credit control, there must come a very extensive consideration of the relation of large scale public debt retirement to the flexibility of the national credit structure.

Money and Prices

The strengthening of commodity prices has been in the right direction and has greatly improved the farmer's position, says the June *Digest of Trade Conditions*, issued by the Central Trust Company of Illinois. "There are reasons for expecting improvement in metal prices, with some further gain in petroleum and a material improvement in rubber. The purchasing power of the dollar has gained thirteen cents since the mid-summer of 1920, when the buying power of the dollar was only forty-nine cents compared with July, 1914. The increase in the value of the dollar has been brought about through a decrease of 31 per cent in food prices; and a drop of 11 per cent in rents, together with some decline in the price of practically everything that goes to make up the family budget. While the purchasing power of the dollar is still 38 per cent below the immediate prewar average, an hour of labor brings 131 per cent more wages than prewar, the result being the greatest spread between the cost of living and the wages of hand workers which labor has ever enjoyed.

Condition of Business

(Continued from page 974)

Finished textile products continue fairly stable despite the firmness in raw wool prices and the weakness in raw silk. Cotton at twenty-one cents is about one cent below the current year's high but five cents better than a year ago.

Undoubtedly the greatest feature in recent price movements has been the decline in crude rubber prices both before and after the announcement by Great Britain of the abandonment of the Stevenson Plan for restricting exports of rubber from British plantations in the Far East. At the beginning of the current year crude rubber was selling at $.41 per pound from which it declined to $.165 cents in April, representing a drop of 60 per cent in less than four months. A slight rally has carried quotations up to around $.18 at the present time.

The latest table of the Department of Labor based on some 550 commodities at wholesale is as follows. The 1926 average is taken as 100.

Group	April 1927	March 1928	April 1928
Farm products	94.3	103.5	107.6
Foods	94.6	98.0	99.5
Hides and leather	101.7	124.0	126.7
Textile products	94.2	96.5	96.5
Fuel and lighting	84.9	80.8	80.8
Metals and products	97.8	98.4	98.4
Building materials	95.0	91.0	92.5
Chemicals and drugs	97.8	95.6	95.8
Housefurnishing goods	97.8	98.3	97.9
Miscellaneous	91.3	86.8	84.9
All commodities	93.7	96.0	97.4

The composite is about 1.5 per cent higher than the previous month and 4 per cent higher than a year ago. It is significant that raw materials have advanced during the year from 92.7 to 100.1, while finished products have advanced from 94.1 to 95.9, which indicates a decreasing margin of profit for manufacturing concerns generally. Whereas a year ago there was a theoretical spread of 1.4 points in favor of the manufacturer, there is now a relatively unfavorable spread of 4.2 points.

Bond Prices Lower Because of Money Firmness

TIGHTENING money conditions have brought about a setback in prices of bonds, all classes of which have reacted.

High grade domestic bonds, as measured by the *New York Times'* average, stand around 92.11, or 1.49 points under the 1928 high, although they are still slightly above prices one year ago.

Foreign government bonds, based on the same index, are around 106.39, or 1.03 points below the current year's high and slightly above one year ago.

United States Government bonds have all declined, since they are particularly sensitive to changes in money market conditions. Losses range from a fraction in some issues to 2.5 points in the Treasury 4¼s of 1947-52.

New Underwritings Continue Large

THE volume of new issues continues heavy, with preferred and common stock offerings strongly competing with bonds for the investor's capital.

Increase in financial or investment companies organized this year places this class of securities among the important factors to which consideration must be given in studying the market today. By purchasing listed stocks for investment, these so-called "trusts" have tended to decrease floating supply and make it easier to bid up prices. As long as bull markets prevail, there will be trading profits, but practically none of the hundreds of these companies in existence today have gone through the test of a bear market.

Largest offering during the month was $50,000,000 external 4½s by the Commonwealth of Australia. These bonds, which mature in 1956, were priced at 92½, to yield the buyer 5 per cent.

Following are the offerings of $5,000,000 or more. It is interesting to note that no less than six are German issues, aggregating $83,750,000, or 22 per cent of the grand total. Interest charges thereon will amount to $5,500,000 annually. In what form do we wish to receive it—as imported German goods to use in place of American products, for example? This question of settlement will be an important one before long.

Developments in the Aviation Industry

IN the past we have referred to the growth in aviation that has made it a definite industry to be reckoned with. Development of new industries furnishes an outlet for capital that might otherwise be put back into established lines already having sufficient capacity for production, and thereby diminish the rate of return on investment.

Recent announcement of the formation of Transcontinental Air Transport, Inc., to operate forty-eight-hour air-rail passenger service between New York and Los Angeles, has attracted widespread attention on the part of the financial world to the aviation industry and its future commercial possibilities.

Capitalized at $5,000,000 to start, this new company is backed by the two leading manufacturers of airplanes and motors, Curtiss Aeroplane & Motor Company and Wright Aeronautical Corporation; by two leading railroads, Pennsylvania Railroad Company and Atchison, Topeka & Santa Fe Railway Company; and by a banking group headed by Blair & Company.

C. M. Keys, president of the Curtiss Company and of Transcontinental Air Transport, Inc., gives the following details of the schedule:

"The first service will permit passengers to leave New York on the Pennsylvania Railroad at 6.05 in the evening, take an airplane near Columbus, Ohio, after breakfast in the morning, stop for lunch in St. Louis, and continue the flight to Wichita, Kan., in the afternoon; transfer to the Atchison, Topeka & Santa Fe Railroad train to a convenient point in New Mexico and fly the next day into Los Angeles, arriving there in the late afternoon. The New York to Los Angeles trip will require two days. This compares with four days required at present by fastest railroad connection."

General W. W. Atterbury, president of

the Pennsylvania Railroad and a director in the new company, refers to the plan as follows:

"The Pennsylvania Railroad has taken this step after careful consideration. Our railroad has become part owner of the Transcontinental Air Transport, Inc., in the belief that the time is ripe for the inauguration of safe and convenient passenger airplane service in this country, in coordination with rail facilities.

"Years of flying and careful research have demonstrated that, with proper maintenance and operation, passenger airplanes of the type to be used by the new company, flying only in daytime and over carefully selected and marked routes, can be safely operated.

"Not until we were convinced that a dependable air service could be produced on a sound basis, and that an independent organization had been developed competent to give a safe and satisfactory service, did we feel justified in giving our support to such an enterprise. We feel those conditions are met in the present undertaking and that it will be the forerunner of far-reaching developments."

Trading in shares of companies making planes, motors and parts has enjoyed a boom recently, with tremendous turnover at rapidly advancing prices.

Of the two leading companies listed on the New York Stock Exchange, Curtiss sold this year from a low of 53⅛ to a high of 192¾, and last November could be had for as low as 45⅛ per share. Wright stock may not have seemed attractive at 24½ in April, 1927, but during 1928 sold from 69 up to 245. There has been some reaction from the top prices, which is customary in cases where the speculation is so active and the increase so rapid.

The tabulation below might be spoken of as a "consolidated earnings statement" of American industry, and shows the necessity of looking into the figures of the various "subsidiary" statements making it up. Seventeen groups had better earnings in 1927 than in 1926, while sixteen were lower.

Also, it shows the relative importance of the different lines of business measured by profits. Sixty-seven companies in the cotton, silk, wool, apparel, leather and shoe industries made $73,000,000, while sixty-nine concerns producing automobiles, trucks and accessories made $336,000,000. Twenty-four coal mining companies made $6,000,000, and twenty-five tobacco companies $125,000,000.

Petroleum producers and refiners, numbering seventy-six, suffered a drop in earnings from $648,000,000 in 1926 to $315,000,000 in 1927, representing a decrease of $334,000,000, or 52 per cent. Yet this industry is still the largest earner on the list.

Public utility systems increased profits 10.7 per cent last year, while Class I railroads decreased 12 per cent.

Last year's decline of 12 per cent in the grand total of industrial, railroad and public utility earnings might well be given careful consideration in view of the action of Congress in voting substantial tax reduction on the one hand and increased government expenditures, including flood relief and the atrocious McNary-Haugen farm bill, on the other.

Industrial Corporation Annual Reports

No.	Industry	Net Profits—000 Omitted 1925	1926	1927	Per Cent Change 1926-27	1925-27
12	Agricultural Implements	$34,489	$43,625	$44,218	+ 1.4	+ 28.2
19	Amusements	44,917	63,272	60,587	— 4.2	+ 35.0
21	Apparel	14,532	15,984	18,883	+ 18.1	+ 30.0
30	Automobile and Trucks	359,058	391,486	285,794	— 27.0	— 20.4
39	Automobile Accessories	63,990	55,348	51,712	— 6.6	— 19.2
26	Building Materials	55,939	57,708	47,095	— 18.4	— 15.9
37	Chemicals and Drugs	99,549	124,220	132,601	+ 6.7	+ 33.2
24	Coal Mining	9,012	24,273	5,606	— 76.9	— 35.8
31	Copper Mining	102,482	119,846	106,853	— 10.8	+ 4.3
25	Cotton Manufacturing	4,486	507*	12,250	+	+174
25	Electrical Equipment	76,486	83,346	82,529	— 1.0	+ 7.8
14	Flour and Bakery	72,958	84,160	91,562	+ 8.8	+ 25.6
26	Food Products	81,861	96,802	101,301	+ 4.5	+ 23.7
11	Heating and Plumbing	27,992	28,560	26,636	— 6.7	— 4.2
42	Iron and Steel	194,365	242,183	179,695	— 25.8	— 7.6
15	Leather and Shoes	27,809	24,087	35,436	+ 47.0	+ 27.4
9	Lumber and Furniture	10,713	8,951	7,101	— 20.7	— 33.6
43	Machinery, Etc.	52,900	63,915	51,273	— 19.8	— 3.1
11	Meat Packing	35,244	33,047	14,702	— 55.1	— 58.3
73	Merchandising	171,479	180,440	195,637	+ 8.4	+ 14.1
36	Non-ferrous Metals (exc. copper)	90,054	92,772	80,742	— 13.0	— 10.4
27	Office and Home Appliances	55,793	61,354	65,358	+ 6.5	+ 17.2
15	Paper and Products	11,913	11,799	14,163	+ 20.1	+ 18.9
76	Petroleum	578,332	648,537	314,734	— 52.0	— 45.6
15	Printing and Publishing	25,131	25,364	28,775	+ 13.5	+ 14.5
19	Railway Equipment	27,760	49,332	39,239	— 20.2	+ 41.5
15	Rubber	72,874	34,935	49,813	+ 41.5	— 31.8
14	Shipping	9,807	8,469	10,692	+ 25.6	+ 9.0
9	Silk Manufacturing	10,392	6,465	4,858	— 24.8	— 53.5
26	Sugar	14,974	9,286	23,756	+ 156.0	+ 58.5
25	Tobacco	109,992	120,003	124,663	+ 3.9	+ 13.4
7	Woolen Manufacturing	2,359	6,985*	2,381	+	+ 0.9
42	Miscellaneous	64,817	65,066	68,511	+ 5.3	+ 5.7
859	Total Industrials	$2,614,459	$2,867,143	$2,379,156	— 17.0	— 9.0
183	Railroads	1,136,973	1,233,003	1,085,342	— 12.0	— 4.5
129	Public Utilities	401,484	462,979	512,819	+ 10.7	+27.7
1,171	Grand Total	$4,152,916	$4,563,125	$3,977,317	— 12.8	— 4.2

*Deficit.

Convention Calendar

Date	State Associations	Place
June 11-12	Oregon	Gearhart
June 14-15	West Virginia	White Sulphur Springs
June 14-16	Washington	Longview
June 15-16	Connecticut	Manchester, Vt.
June 15-16	Massachusetts	Manchester, Vt.
June 18-20	Iowa	Cedar Rapids
June 18-20	Minnesota	Pequot
June 18-22	Michigan	S. S. Noronic, Mackinac, Parry Sound & Owen Sound
June 19-20	Idaho	Boise
June 19-21	South Carolina	Myrtle Beach
June 20-22	Illinois	Rock Island
June 22-23	Colorado	Troutdale in the Pines
June 22-23	Utah	Ogden
June 23	Maine	Belgrade Lake
June 25-27	New York	Upper Saranac
June 26-27	Wisconsin	Milwaukee
July 10-11	North Dakota	Dickinson
Sept. 3-4	Wyoming	Yellowstone Park
Sept. 3-4	Montana	Yellowstone Park
Sept. 12-13	Kentucky	Louisville
Sept. 19-21	Indiana	Gary
Oct. 26-28	Arizona	Globe

Date	Other Associations	Place
June 11-16	Assn. Nat. Credit Men	Seattle, Wash.
June 13-15	Nat. Assn. of Mutual Savings Banks	Swampscott, Mass.
June 15-16	New England Bankers	Manchester, Vt.
June 18-22	American Institute of Banking	Philadelphia, Pa.
Sept. 17-20	Financial Advertisers Assn.	Utica, N. Y.
Oct. 1-4	American Bankers Assn.	Philadelphia, Pa.

Book Announcement

THE Mythology of Reparations. By Robert Crozier Long. Gerald Duckworth & Co., London.

The author of this book is a frequent contributor to the AMERICAN BANKERS ASSOCIATION JOURNAL. His articles have dealt largely with German finance, of which he is an ardent student and a close observer. "He has spent eight years in Germany exclusively in the study of economic problems and especially of the Dawes Plan," says the publisher's announcement. "He believes that it will succeed in spite of the myths that the mark reparation annuities may be untransferable to the Ally creditors, and that Germany may be unable to make the mark payments. The first part of the book demolishes the so-called transfers question. The second deals with Germany's development since the Dawes Plan came into force, and in particular with her savings; and shows, from authoritative statistics, that Germany is paying for reparations only a small fraction of her current increment in wealth. Other problems dealt with are German borrowing from abroad, reparation competition, the characteristics of the German bureaucracy and the policy of the Office for Reparation Payments in Berlin."

The Bank Auditor's Responsibilities

By FRANK O. WETMORE

Chairman, Board of Directors, First National Bank, Chicago

GREAT responsibilities are placed on a bank auditor. On the other hand, the position of an auditor is one of unusual opportunity. He must be intimately acquainted with the detail of all departments, including the complicated accounting of the foreign, bond, and real estate departments and the Joint Stock Land Banks. By reason of his daily contacts he acquires a greater knowledge of his bank as a whole than most any other officer in it.

In establishing an auditing department with such broad supervisory powers, a bank naturally meets with the opposition of some of its clerks, department heads and even officers who are so narrow-minded as to be unwilling to surrender part of their duties, even though realizing the benefits to be derived by so doing. Such opposition must be overcome.

IN creating a position of auditor, a corporation announces the appointment of an officer whose responsibility, in the last analysis, is to the stockholders or the stockholders' representatives, the board of directors.

This theory of an auditor's duties is clearly demonstrated in the custom prevalent in England of the stockholders appointing auditors at their annual meetings. It is a position that requires of the occupant the closest of application to his duties and the highest standards of ethics.

All reports should be made to the directors of a corporation, they being the selected representatives of the stockholders, and not to an officer of the company.

There always have been and there always will be officers of corporations that are open to criticism for misconduct or poor judgment, and the only way that such criticism can be effectively made is by presenting it to those who are responsible for the officer's employment.

IT is much easier to criticize than to create, and therefore those who have the responsibility of criticizing should be doubly sure of their ground before they speak. This requires a most careful study of the problems presented—the cultivation of poise, the elimination of all personal animosity, and frequently great personal courage.

If an auditor is with an institution the directors of which expect him to assume the responsibility of the title of auditor but do not give him proper opportunity to make reports directly to them, he should hunt a new job, and particularly so if he finds himself in the uncomfortable position of being, by silence, compelled to tacitly approve conditions open to serious criticism.

What Protection Shall We Buy?

By H. P. MICHAEL

Burglary Protection Engineer of Underwriters' Laboratories, Chicago, Ill.

ALL bank executives, at one time or another, are confronted with the questions, "What protection shall we buy? Shall it be tear gas, bullet-resisting inclosures, or a burglar alarm? What make of system is best?"

These questions must be answered with the greatest of care, since the purchase may be an asset or a liability; it may inspire public confidence or may lose it.

The vault and banking room should be surrounded by the most reliable protective devices that can possibly be afforded. It should be done now, not next year nor next week.

Reliability, protection of employees, simplicity, and cost are the important considerations in buying. The reliability and value of any protective equipment can best be determined by experience and by the opinion of competent authorities. Experience is reflected in the rates or credits given by insurance companies to different protective devices. The recognition given will usually indicate, roughly, the relative value of one class of devices as compared with another for the use intended. The average banker will probably find that systems which are automatic and require no hazardous move on his part are preferred for daylight raid protection. This does not hold for the burglary hazard.

Having made a mental selection as regards reliability, the banker should consider the protection of human life. He should not expect his employees to resist the bandits' command if resistance jeopardizes the lives of employees and customers. Do not allow them to be locked in the vault. There are door attachments to prevent such happenings. Every daylight raid is a potential life hazard, but every safety device in a bank is a potential safeguard tending to discourage the attack.

SIMPLICITY and cost are related items, and may be so considered. Mechanical devices are perhaps the simplest and least troublesome of all, but they are not always sufficient. For protection of vaults, alarm systems are the most widely used and accepted. Any burglar alarm capable of resisting attack is a complicated and highly developed signaling system. Some false alarms will be experienced. The same make of system may give one false alarm in five years on one bank, or five false alarms in one year on another. Do not expect a cheap alarm to perform as well as a higher grade of system. The banker must be prepared to contribute a yearly maintenance fee, replace batteries, and pay for other incidental repairs which will vary with the make of system. An electrical system must

be tested conscientiously and frequently. Even though all funds are insured, a loss resulting from failure to care for the system may be a great inconvenience and lessens the bank's standing in the eyes of customers and insurance carriers.

Reference was previously made to the opinion of competent authorities as a measure of the reliability of a system. By this was meant the listing of systems by Underwriters' Laboratories, a non-commercial, unbiased, testing institution which is maintained by insurance companies for no other purpose than to give the best obtainable opinion on the merits of materials, devices, and systems upon which they depend.

Local burglar alarm systems are classified as Grade A, B, and C, according to merit. Grade A is the accepted standard of a good alarm. Bandit-resisting inclosures, tear gas, relocking devices, safe deposit boxes, and many other appliances are not graded as A, B, etc., but are examined for compliance with minimum requirements. Systems failing to comply with these minimums are not listed.

IN addition to this merit classification, installations are usually further classified for insurance purposes as to extent of protection, for example, complete or partial vault alarm. Many classes of devices may be identified in the field by a certificate indicating the classification of the equipment. These certificates are issued by the listed installing company, subject to yearly check of a percentage of certificated equipments by the Laboratories' engineers. No supervision whatever is given unlisted or non-certificated installations, and for this reason prospective purchasers of such equipment should specify in their contract that a certificated installation of the proper class be furnished.

It should be emphasized that listed or certificated equipments of a given class are not necessarily equivalent in quality or merit, the listing indicating only compliance with Underwriters' Laboratories' Standards. Further, no guarantee can be given by anyone as to the financial stability or business ethics of an operating company. In the consideration of these items, a bank must seek the experience of fellow bankers. Lists of inspected burglary protection appliances are published in January of each year, and will be furnished gratis upon application to the principal offices of Underwriters' Laboratories.

New Books

THE RISE OF THE HOUSE OF ROTHSCHILD. By Count Egon Cæsar Corti. Translated by Brian and Beatrix Lunn. Published by Cosmopolitan Book Corp., New York. $5.

This is a deeply interesting and important historical and biographical work which traces the career of the world-famous banking house from its humble beginning in the Ghetto of Frankfort, Germany, in the early part of the eighteenth century to the close of the nineteenth. It is a fascinating account of a financial dynasty which played a more important part in the shaping of the world's destiny than many of the ruling houses of the time. The Rothschilds, in the beginning in Frankfort, were poor and oppressed and almost without hope of success. As small merchants they learned how to win the favor of the petty regents over them, lent them money and transacted their business. A decade found the family on its way to moderate prosperity. Two more decades found the house with sons established in England and France, with interests in international banking. Then their power began to be felt. They established a postal system which was superior to that of contemporary governments, and was used by the governments. They turned the contents of the mails, which they carried to their own advantage, and while each nation believed its branch of the family loyal, the loyalty of the Rothschilds was for really the house itself, and when Wellington wanted money for his soldiers, it was possible for the Rothschilds to lend it through French banks. The volume is filled with instances of how intrigues in pounds, ducats and gulden finally placed the Rothschilds in command of the money bags of empires, and, in short, constitutes a most instructive as well as entertaining record of the construction of old Europe. The author spent three years in research for the facts used in the preparation of this volume.

The House of Rothschild was built upon action, under conditions where one false step might have been fatal; the author's marshalling of the facts lifts the book out of the prosaic historical record into a book of action.

WHAT DO YOU THINK?

Being a more or less personal talk between the EDITOR *and the* READER

Got the Bandit's Money

A BANDIT gets a bank's money often enough but it is a rare day when the bank gets a bandit's money. Such a thing happened in Missouri, the land where tradition and history are all against anyone meekly submitting to injustice in the face of danger. In the town of Aronogo a bandit once walked into the bank and, placing a $5 bill on the teller's ledge, asked for change. As the teller bent his head to count the required change the bandit covered him with his gun—with a surprising result!

The teller dropped down back of the counter and immediately came up armed and shooting. The bandit fled leaving the bank the $5—mayhap as a slight recompense for the interruption to the day's business.

Advertising and Banking

IN a little over two years the volume of advertising in the JOURNAL has been doubled, and the list of advertisers is suggestive of a roll call of the foremost names in the country.

A pertinent question to ask is, what does this advertising mean to the banker?

As most advertising comes to us through the leading advertising agencies of the nation, it means that these organizations believe that the JOURNAL is rendering a real service to banking.

Their opinions are not formed lightly nor on what is sometimes referred to in legal papers as "information and belief."

Usually it is formed after a painstaking investigation, running in many directions and prying into many corners, for the modern advertising agency does not spend its client's money without good and sufficient reasons.

An advertisement placed in a magazine that is rendering service is, they reason, pretty sure to be seen, be read and seriously considered.

Then there is the natural companion of efficiency in advertising economy in advertising. The JOURNAL pages furnish a very economical way for advertisers to reach the banks of the nation, in a medium of paid circulation and with the number of copies ascertained and published by the national institution set up for that purpose—the Audit Bureau of Circulations.

On the other hand, through the medium of those responsible concerns whose messages are admitted to our pages, bankers may be kept informed of the advancement of industry, in those things designed for the betterment and improvement of banking.

Scores the New Sophistry

FREDERICK DREW BOND, of Croton-on-the-Hudson, N. Y., in a communication to the New York *Times* scores what he characterizes as the "new sophistry" concerning investments — the theory that neither bonds nor preferred stocks are necessarily the best investments but that common stocks are the best securities for the investor's funds.

"The curious paradox may be noted," says the writer, "that the new views which profess to demonstrate the general stability of existing common stocks and their superiority to bonds should be used to vend extensively the new and untried stock of new corporations.

"The most pernicious phase of the matter is the present attempt to use the new sophistry to weaken the safeguards around savings banks, trust funds and insurance companies. Some steps in these directions have already been taken. More are contemplated. At the Eastern Regional Conference of the Savings Bank Division of the American Bankers' Association, held in New York, on March 23 of this year, one of the most extraordinary speeches which a convention of this kind ever listened to was delivered and afterward published throughout the country. The author's name need not be mentioned; the fact that a speech of the sort could be delivered before this body without being laughed out of court is the remarkable thing. The conclusions, which is the logical development of the new theory of investment, may be quoted:

"'The one-talent man in the parable said he was afraid—scared. He thought he might lose his master's talent or that it might be stolen. So he went and hid it in the earth. And his master took it away from him. Trustees of the savings bank depositor, do not be afraid of losses! Do not be afraid of mistakes! Better be dangerously alive than safely dead. The savings bank needs courage and a program!'

"Comment is truly needless."

For Life Insurance Trusts

THERE has recently been set up in Chicago a Joint Advisory Committee of bankers and life underwriters to supervise the development of life insurance trusts. This committee is the outcome of an agreement between the Chicago Underwriters' Association and a number of large banks.

"With cooperation in view," says the Chicago *Journal of Commerce*, "the association of life underwriters has authorized associate memberships for each of the ten banks and trust companies with the further proviso that each bank must appoint at least two and not more than three of its staff to the association.

"One representative from each bank must be either a vice-president or the trust officer. These bank representatives will work with the officers of the life underwriters.

"The association also is planning a monthly sales magazine for its members, much space of which will be devoted to insurance trusts.

Cooperation Gets Crooks

A TYPICAL illustration of the value of the Protective Section of the American Bankers Association Journal in making the way difficult for professional crooks is given in the following letter from H. Earl Farry, Cashier of the Asbury Park and Ocean Grove Bank, at Asbury Park, N. J. It illustrates not only the practical use of the information and warnings which are printed each month in this magazine, but it is an excellent instance of what cooperation between banks will accomplish along this line.

"William Cooper, whose photograph and record appear in your May Protective Section, came into our bank this morning and attempted to work his game as outlined in your article. We immediately called Police Headquarters and had him placed under arrest. Our Police Department got in touch with the Police Department of Ocean City, N. J., and found that they had a warrant for his arrest. He has now been turned over to the Ocean City police.

"This man also appeared in Freehold, N. J., and attempted to work his game. Rulin Applegate, assistant cashier of the First National Bank of Freehold, thought he recognized him from the article appearing in your JOURNAL but before he could get an officer the suspect disappeared. They learned that he had taken a bus for Asbury Park on Saturday afternoon. Mr. Applegate thought he might attempt to work his game here and called the writer by phone early this morning and we in turn notified all the local banks to be on the lookout.

"About 10:30 this morning he appeared at our Paying Teller's window and was immediately recognized. He asked to have a draft made out withdrawing his balance on a Galveston, Texas, bank. We called the Police Department and his arrest followed.

"I believe the article appearing in your magazine was very largely responsible for his detention and I congratulate you."

"Full of Meat"

"THE May number of the American Bankers Association Journal," writes A. I. Fleming in the Washington Star, "is full of meat. Articles that will be of interest to every banker, containing much useful information, judicial opinions and findings and interesting cases for adjudication, are contained therein.

"The cover page is as usual attractive, bright with color, illustrating a colonial apothecary making change, using a cold chisel to cut a dollar, so as to give the customer 25 cents in change."